

# ***GOLD & ENERGY ADVISOR***

Vol. IV, No. 11     \$19

November 2007

## **“China’s US\$ Blackmail!”**

**“China’s growing wealth and military power will help drive gold to \$2,500 and platinum to \$5,000 per ounce.**

**“The U.S. Dollar and our economy are absolutely at the mercy of China. BUT with this knowledge in hand, you’re in position to retire filthy rich.”**

- **We’ve made spectacular profits from gold and oil, and will continue to do so in the years ahead. Meanwhile, it’s time to start looking for the next mega-trend: the economic forces that will drive precious metals, commodities, and energy prices to astounding new highs!**
- **How I made millions investing in Russian gold, silver and platinum. Why this strategy should produce even greater profits with China. I’ll even do all the work for you.**
- **Meet the single best China stock expert, and learn about his amazing advisory service—up over 80% this year!**

However, to make *great* money, you need to pick the right stocks and investments **within the context of a larger trend.** (On average, our *GEA* model portfolio is up over 36 percent per year since inception. And we’ve taken very little risk to get those returns—we include hedging and a good cash position to protect ourselves from unexpected events.)

Great investments will do well on their own, it’s true. But when there’s a market-shifting trend or event pushing them up at the same time...

---

### **That’s when fortunes are made!**

---

And that’s what my *Gold & Energy Advisor* service is all about.

Now that the gold and oil bulls have launched, we’ll continue to ride them and take profits. Meanwhile, we should prepare for the next big trend at the same time.

**Q**uestion: what’s the best way to make money in the markets?

Answer: obviously, you can make money by picking the right stocks. And many people take this approach.

I believe I know what the next big trend will be. As you've seen on the cover of this issue, I believe the next huge shift in the precious metals, commodity and energy markets will be ignited by...

---

## China!

---

But not in the way everybody else is expecting.

### THE GOLD AND ENERGY ADVISOR

#### EDITORIAL STAFF

*James DiGeorgia*      *Editor*  
*Spiros Psarris*      *Associate Editor*

#### PUBLISHING STAFF

*Chuck Aultman*      *Subscriber Services*  
*Sharol Dell'Amico*      *Marketing Manager*

The **GOLD AND ENERGY ADVISOR** is a newsletter dedicated to educating investors about the investment opportunities in precious metals and energy. Unless otherwise stated, all charts, graphs, forecasts and indices published in the **GOLD AND ENERGY ADVISOR** are developed by the employees and independent consultants employed by The Silver & Gold Report, LLC. The accuracy of the data used is deemed reliable but is not guaranteed. There's no assurance that the past performance of these, or any other forecasts or recommendations in the newsletter, will be repeated in the future. The publisher, editor, and staff of this publication may hold positions in the securities, bullion, and rare coins discussed or recommended in this issue. The publisher, editor and staff are not registered investment advisors and do not purport to offer personalized investment related advice; the publisher, editor and staff do not determine the suitability of the advice and recommendations contained herein for any subscriber. Each person must separately determine whether such advice and recommendations are suitable and whether they fit within such person's goals and portfolio. **GOLD AND ENERGY ADVISOR** is affiliated with **Finest Known**, a dealer in rare coins and bullion. Mining companies, oil & energy exploration and/or oil & energy service companies mentioned or recommended in **GOLD AND ENERGY ADVISOR** may have paid or may in the future pay the publisher a promotional fee.

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.

© 2007 The Silver & Gold Report, LLC. All rights are reserved. Permission to reprint materials from the **ADVISOR** is expressly prohibited without the prior written consent of the publisher.

I'm not talking about a Yuan devaluation, or some other minor trade issue. I'm talking about an impending geopolitical shift that will rock the markets.

Some investors will be ruined. Others will become wealthy, perhaps even filthy rich. And our goal is to be in the second group!

To make sure you're on the RIGHT path.

First, we'll see what's brewing on the other side of the Pacific. Next, we'll discuss the two possible ways it can turn out. Finally, I'll show you a few ways to get a leg up—how to get an insider advantage in the Chinese economic miracle. The Chinese juggernaut is still in its early stages, and you can really profit hadnsomely if you do it right.

---

## China and the US: On a Collision Course

---

For decades after the Chinese Communist revolution, America and China had a tense standoff. In the 1970s, though, the freeze thawed. Today, we have a warm, cozy relationship with the Chinese; one that will last for the foreseeable future.

That's what most analysts think, anyway. Too bad they're wrong.

Our relationship with China is about to change dramatically, thanks to simmering resentments toward us on the other side of the Pacific. It's all because of a little island named Taiwan, off the coast of mainland China.

To understand what's going on, we need to review a little history.

In 1927, a civil war broke out in China. A young Communist revolutionary named Mao Zedong started a revolution against the national government. Mao started out with only a handful of followers—in 1922, the entire Chinese Communist Party had only 300 members. Nevertheless, Mao was a brilliant commander. After 23 years of civil war (interrupted for eight years by a joint battle against the Japanese), Mao's Communists eventually beat the Nationalists.

The Nationalist government fled 90 miles offshore to the island of Taiwan, where it remains today. (The Communists planned an invasion to finish the war, but they were deterred by the US Seventh Fleet, which was sent to the Taiwan Strait in support of the Nationalists.)

Fighting continued via intermittent clashes and raids until the mid 1960s. Interestingly, the two

sides never signed an armistice. Technically, the Nationalist government of Taiwan (the “Republic of China”) is still at war with the Communist government on the mainland.

---

## A 60-Year-Long Slap in the Face

---

The Republican government is a source of constant humiliation to the Communist Party. Like all Communist guerrillas, Mao liked to claim that his Revolution was the inevitable outcome of history, as workers overthrew their capitalist oppressors. The fact that so many people fled his “worker’s paradise” was, and still is, an embarrassment.

Not only that, the Nationalists took a lot of things with them when they fled the Forbidden City in Beijing. Specifically, they took as much gold and foreign currency reserves as they could carry. Worse, they also took art and artifacts from millennia of China’s history.

The National Palace Museum in Taiwan has more than 650,000 pieces of bronze, jade, calligraphy, painting, and porcelain. The collection is so extensive that the Museum can only display 1 percent of it at any time. Again, this is more humiliation for the Communists, who view themselves as the rightful inheritors of China’s cultural heritage.

Even today, 60 years later, Taiwan is an ongoing “loss of face” for the Communist leadership. As the *Christian Science Monitor* wrote,

“It is a conundrum for China’s leaders... To not force changes on Taiwan will undermine party legitimacy. After Tiananmen Square the deal China made with its upper-middle class elites was to forge a great nation, and that this dream could not be delivered without Taiwan...”

“Taiwan is one of the two pillars of Beijing’s legitimacy. Regaining Taiwan brings an end to historical humiliation... For the Chinese psyche, the unity of the nation is equaled to national greatness.”

---

## An Insoluble Problem... Until Now

---

Once the US declared its support for the Republic, a military solution to the Taiwan ‘problem’ was impossible for the Communists. They soon had other problems anyway. Mao’s mad socialist policies killed millions of people, and wrecked the mainland’s economy.

Mao finally died in 1976. Fortunately for the Chinese people, his successors have betrayed

everything he stood for. Although the Communist government remains in power, the economy has been transformed from Communism to capitalism. Private businesses are flourishing, and the economy is expanding at a breathtaking rate.

Of course, Taiwan was never crippled by the insanity of Communism. Its economic performance has been spectacular. Today, Taiwan enjoys about \$220 billion per year in trade, an annual per capita income of over \$12,000, and huge gold and foreign exchange reserves (\$270 billion, the fourth-largest reserves in the world).

This economic miracle has not gone unnoticed on the mainland. Taiwan is now more than an ongoing humiliation for the mainlanders. It would make a spectacular financial prize as well.

However, that prize was out of reach for the Communists for almost 60 years. With Washington pledging military support for the government in Taipei, the mainlanders knew it was hopeless to even try for the island.

But that’s all changed now. In fact, I believe the Chinese are about to make a major push to take Taiwan.

Here’s why.

---

## Taiwan Flashpoint #1: Failed Attempts at Reconciliation

---

A few years ago, the Communists decided to be realistic about their situation. Decades of blustering and chest-beating had achieved nothing, so they decided to try pragmatism instead.

The mainlanders offered the islanders a “one nation, two systems” solution. They offered to let Taiwan keep its national flag, its national anthem, and even its own military. It’s OK, they said, for you to have a Taiwanese identity. It just has to be part of a broader Chinese identity.

For the mainlanders’ loss of face to finally end, there can be only one China in a formal sense. In a practical sense, however, the Communists offered to be flexible.

This was an amazingly generous offer, coming as it did from the government that massacred its own people in Tiananmen Square. The Taiwanese were initially receptive, but lately have embarrassed the Communists (again) by openly snubbing this offer.

And that was just one example of a broader trend...

**Latest prices as GEA goes to press—  
November 26, 2007**

Comex spot contract: silver \$14.82, gold \$829  
Nymex spot platinum: \$1,476, palladium \$354  
Nymex Light Sweet Crude Oil \$97.79

	<b>Dealer will buy at this price</b>	<b>Dealer will sell at this price</b>
<b>Silver coins</b>		
100 1 oz. silver American Eagles	\$1,525	\$1,600
100 1 oz. common rounds	\$1,482	\$1,575
\$1,000 face value US pre-1965 coin bag (circulated)	\$9,000	\$10,100
\$1,000 face value US circulated silver dollar bag (VG or better)	\$11,300	\$11,900
US Morgan silver dollars	PCGS MS64 \$45 PCGS MS65 \$116 PCGS MS66 \$220	\$51 \$129 \$245

**Platinum coins**

U.S. Platinum Eagle:	1 oz.	\$1,485	\$1,525
	1/2 oz.	\$743	\$773
	1/4 oz.	\$372	\$386
	1/10 oz.	\$149	\$153

**Gold coins**

US Gold Eagle:	1 oz.	\$840	\$870
	1/2 oz.	\$420	\$435
	1/4 oz.	\$210	\$218
	1/10 oz.	\$84	\$89
US \$20 double eagle:			
Liberty	Raw MS60	\$800	\$900
	NGC MS63	\$1,030	\$1,130
	NGC MS64	\$1,580	\$1,690
	NGC MS65	\$3,900	\$4,500
Saint Gaudens	Raw MS60	\$800	\$840
	NGC MS63	\$885	\$915
	NGC MS64	\$970	\$1,020
	NGC MS65	\$1,240	\$1,340

Prices provided by Finest Known

Put Gold in your IRA  
Call (866) 697-GOLD (4653)  
We Pay Your First Year's Fees!

**MS67 \$2½ Liberty gold coin, graded by  
PCGS/NGC. Sold for over \$19,000 in the  
early 1980s. Our best bet: Buy for \$6,000.**

**Taiwan Flashpoint #2:  
Growing Provocations**

For most of Taiwan's existence, its people were careful not to anger their larger neighbor. Lately, that's no longer the case.

This started back in 1999 with Lee Teng-hui, then-President of the Republic of China. He commented that the ROC and the PRC (People's Republic of China) have a "special state-to-state relationship."

To us, this doesn't sound very provocative. But every time Taiwan is mentioned as being separate from the Communist government, more salt is poured into the Communists' wounds. It's a reminder not only of their failure in 1949, but also a reinforcement of China's impotence before foreign (American) military strength.

Ultimately, it all comes down to saving face. After 60 years, Taiwan is obviously an independent entity. The Communists have been willing to tolerate this situation, *as long as it's not declared openly*. If Taiwan were to declare itself as an independent, sovereign nation, separate from mainland China, this would be an intolerable act.

The Communists would be forced to respond. And they've repeatedly warned that they will, if a declaration of independence occurs.

Unfortunately, the Taiwanese are pushing their luck. A rising tide of nationalism is sweeping the island. In a poll seven years ago, 36 percent of the population felt they were of Taiwanese national identity. A poll this year revealed a rise to 68 percent.

Predictably, the Republic's politics reflect this. In the current election cycle, the platform of the KMT (Kuomintang, or Nationalist) Party says this:

"The Republic of China is an independent sovereign state. Its 23 million people determine the fate and future of Taiwan. All state affairs are guided by the people-first and Taiwan-centered principle."

Not only that, last month the KMT leadership yanked all mention of the "1992 consensus" from its platform. This agreement had been made with the Communist government, where both sides agreed there was 'One China, but two interpretations.' This document was the only reason that the government in Beijing has been able to talk to the government in Taipei without losing face. Now it's being disdained by the KMT.

The KMT has also removed a platform reference to the National Unification Council, which the *China Post* describes as “symbolizing Taiwan’s commitment to eventually return to China’s fold.”

And the KMT is only one of the two main Taiwanese parties. The other party (the DPP) is even more radical. The DPP believes that Taiwan doesn’t need to declare independence: it’s an independent state already. This party denies the existence of the 1992 consensus completely.

In yet another major insult, Taiwan recently petitioned the United Nations for admission. Even the US had tried to dissuade Taipei from doing this, but to no avail.

Despite repeated warnings from the mainland, the Taiwanese are edging closer and closer to a full proclamation of independence. As the *China Post* wrote,

“Both Washington and Beijing must see to it that Taipei will not cross the final red line in order to avert a full-scale military conflict in the Taiwan Strait, which will endanger not only the security of the Asia-Pacific region but also the whole world. It is always possible that when a spoiled kid is allowed to play with fire, the fire may accidentally do harm to him and others.”

Taipei is goading Beijing more frequently and more openly. This is leading to ...

---

### **Taiwan Flashpoint #3: Chinese Military Restlessness and Preparations**

---

In the face of these offenses, the Chinese military leaders have been vocal in their desire to take Taiwan.

“Being a military man, I personally feel that the Taiwan problem should have a time schedule. I hope that while I am on active duty the motherland can be reunited.” Those are the words of Lieut. General Li Fengzhou, deputy director of the PLA (People’s Liberation Army) armaments division. (He was quoted by the *China Business Times*; the article was titled, “Taiwan Independence Means War.”)

Also, as the *Christian Science Monitor* reported in 2004, “Chinese diplomats recently leaked information that retired generals urged military head Jiang Zemin to take swift action against Taiwan—to settle the cross-straits issue well ahead of the 2008 Olympics to be held in Beijing.”

More recently, there are ominous signs from

**F**rom the Communists’ perspective, the US has also provoked them repeatedly.

The Communists view Taiwan as an internal affair—nobody’s business but their own. So they were outraged in 1951 when the United States declared, “The regime in Peiping [Beijing]... is not the government of China... We recognize the national government of the Republic of China, [which will]... continue to receive important aid and assistance from the United States.”

Also, until 1971, the US blocked the admission of the Communist government as a member of the United Nations.

Then in 1979, Congress passed the Taiwan Relations Act. Among other things, it says this:

“Any effort to determine the future of Taiwan by other than peaceful means, including boycotts and embargoes, is a threat to the peace and security of the Western Pacific area and of grave concern to the United States.”

The Taiwan issue has popped up even in American politics. The US Republican Party platform in 2000 said, “We deny the right of Beijing to impose its rule on the free Taiwanese people.” And President Bush mentioned the “Republic of China” soon after his inauguration.

Beijing has also been outraged when the US received official visits from the Dalai Lama, the spiritual leader of Tibet, as well as the President of Taiwan. China has complained about these “gross interferences” with its internal affairs.

Finally, when Chinese President Hu Jintao visited the US in 2006, he was received on the White House Lawn. There, at his reception, in front of the TV cameras, he was openly heckled and humiliated by a Falungong practitioner. (Falungong is a form of Buddhism that is banned in China.)

These events might not seem like much to us. In fact, we might even think the Chinese deserved them.

But to the Chinese way of thinking, we’ve punched them in the nose over and over again. They’re looking forward to humbling us.

## Portfolio Update

In Update #410, we bought options on Pride International (PDE). We bought one contract of the April 2008 \$25 calls (PDEDE).

In Update #413, we took quick profits on our PDEDE options. Our return was about 22%. We also recommended selling the stock if you own it.

In Update #414, we issued instructions are for subscribers who owned EnSCO International (ESV). We hedged by selling to open the November \$55 calls (ESVKK), at the market. This reduced our cost basis in the stock.

In Update #415, we rolled up a leg of our Plains Production and Petroleum (PXP) spread. We bought to close the PXP Nov. \$45 calls (PXPKI), and simultaneously sold to open the PXP Dec. \$45 calls (PXPLI). This lowered the cost of our PXP Jan. \$30 calls (PXLAF).

In Update #419, we issued instructions for subscribers who wrote options against Devon Energy (DVN) and Pioneer Natural Resources (PXD).

On DVN, we rolled up our November \$75 calls (DVNKO) to the December \$75 calls (DVNLO).

On PXD, we rolled up our \$45 November calls (PXDKI) to the \$45 December calls (PXDLI).

In Update #421, we issued instructions for subscribers who wrote options on Talisman Energy (TLM) and ConocoPhillips (COP).

On TLM, we rolled up our November \$15 calls (TLMKC) to the January \$15 calls (TLMAC).

On COP, we rolled up our November \$75 calls (COPKO) to the January \$75 calls (COPAO).

In Update #423, we bought calls on Pride International (PDE). We bought 1 contract of the April 2008 \$25 calls (PDEDE) for \$9.30.

We also sold short puts on Diamond Offshore (DO). We sold short one contract of the December \$105 puts (DOXT).

In Update #425, we issued instructions for subscribers who sold the ESVKK options against their EnSCO International (ESV) position. We allowed the options to expire, and kept the \$250 premium.

within the military. A month ago, the PLA reshuffled its leadership in the CMC (the Central Military Commission—similar to our Chiefs of Staff). The *Asia Times* reported:

“The new PLA leadership’s top priority is to focus on Taiwan-related affairs...” At least five members of the new CMC lineup have Taiwan-affairs credentials: both Chen Bingde and Liang Guanglie in the 1990s worked successively as Commander of Nanjing Military Area Command, which covers and concentrates on the Taiwan Strait.

“Wu Shengli used to be the chief of staff and commander of a navy base in Fujian province, facing Taiwan across the Strait. Both Li Jinai and Jing Zhiyuan are experts in missile deployment, which would be the opening salvo and a major force in any potential attack against Taiwan.”

In August, China said its PLA not only has “the determination and the ability,” it’s also ready “to stop Taiwan independence and serious incidents which Taiwan independence may bring.”

Earlier this year, a Pentagon report said China is rapidly modernizing its forces facing Taiwan. Over 900 missiles are now pointed at the island from the mainland. Naval and air forces are also being built up. The report said, “China is prioritizing measures to deter or counter third-party intervention.” (Obviously, the “third party” here is America.)

---

## Two Runaway Trains, One Head-On Collision

---

The United States has pledged to protect Taiwan from all threats. President Bush has said the US would do “whatever it took to help Taiwan defend itself” from a Communist invasion.

Meanwhile, the Chinese are preparing just such an invasion. As Chinese Premier Wen Jiabao told the *Washington Post*, “The Chinese people will pay any price to safeguard the unity of the motherland.”

Chinese officials have promised to sacrifice millions of lives, if necessary, to regain Taiwan. President Hu Jintao recently said, “We will not let anyone separate Taiwan from the rest of China in one way or another.”

As the Chinese ambassador to the United Nations warned, “China will have no choice. We will do the business through whatever means are 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.”

The Chinese public seems to agree. Apparently, many Chinese believe they have every right to take Taiwan. Articles are appearing in their media that ask: if it's acceptable for the US to invade Iraq, why would it be wrong for us to invade Taiwan? If it was acceptable for Abraham Lincoln to invade a secessionary region in the American Civil War, why can't we do it as well?

If the world is outraged over this, say these commentators, that's OK. The world will get over it eventually.

---

## Why The Chinese Think They Can Win Today

---

The Chinese would have invaded Taiwan decades ago if it weren't for the American military. So why would they change their minds now?

There are several reasons. First, our military is already stretched dangerously thin with the ongoing wars in Iraq and Afghanistan.

Even without that, though, the Communists think that victory would finally be within their grasp today. To understand why, and to comprehend the Chinese military mindset, it's necessary to go back 2,400 years to an ancient Chinese general named Sun-Tzu.

Sun-Tzu wrote perhaps the finest military manual of all time. (It's available in English translation as *The Art of War*.) He wrote little about specific weapons and tactics. Instead, he wrote about strategy. How to attack only where the enemy is weak. How to win against a far superior enemy. How to deceive your enemy, and trick him into defeating himself.

For example, I mentioned earlier that Mao Zedong was grossly outnumbered when he fought the Nationalists. He also had no aircraft, no motor vehicles, no telephones or radios, no medical services, no artillery, and was always running out of ammunition.

Conversely, his enemies the Nationalists had an army and air force that were fully trained, supplied, and equipped with state-of-the-art hardware from the United States.

But Mao, a devout student of Sun-Tzu, won anyway. This should get our attention. It certainly

*(continued on page 9)*

## Who Controls China?

Like all Communist regimes, China's government claims to be controlled by the 'people.' In reality, a small handful of men rule the entire country.



**Hu Jintao** is:

- the President of the People's Republic of China
- the General Secretary of the Communist Party of China
- and the supreme commander of the Chinese military.

...all at the same time.



**Wu Bangguo** is the Chairman of the National People's Congress, the "highest organ of state power." The NPC enacts laws, appoints government and military officials, controls the national budget, and "decides on questions of war and peace." It can also alter the Constitution at will.



**Wen Jiabao** is the Premier of the State Council, the executive branch of the government. The Council includes the heads of each governmental agency and department. It executes and enforces the will of the National People's Congress.

These three leaders are also the top members of the Politburo Standing Committee of the Communist Party of China—the highest decision-making body in the country. The other six members are Jia Qinglin (Chairman of the People's Political Consultative Conference), Li Changchun (Propaganda Chief), Xi Jinping (top-ranked member of the Party Secretariat), Li Keqiang, He Guoqiang, and Zhou YongKang.

Xinhua photo

**“In my opinion, you could easily double your money in the next 12 months.”**

Jim Trippon  
editor, *China Stock Digest*

**A**long with danger, China presents breathtaking opportunity.

You’ve probably heard about the explosive growth of the Chinese stock market. The Chinese are flush with cash, and eager to invest it.

I recently spoke to Jim Trippon, an expert in Chinese stocks. He’s the editor of *China Stock Digest*, and has produced astounding returns for his subscribers. For example, a couple of weeks ago he closed out a trade on China Life for a 549 percent profit!

Unlike most stock analysts, Jim has a “boots on the ground” approach. He not only has an office in China (and travels there frequently), he maintains a team of financial analysts and insiders on the streets of Hong Kong, Shanghai, Taipei, and Beijing. His network of contacts allows him a view into China that few Westerners have.

I asked Jim where the opportunities are in China right now. Here’s an excerpt from our conversation.

---

**JDG:** *What’s going in China today?*

**JT:** The interesting thing about China is that if you go to the mainstream media, you won’t know what to think. The media will leave you dazed and confused. They aren’t reporting on China accurately.

The biggest news is that Chi-

na’s economy will surpass the US in less than 10 years. The mainstream media are all saying 25-30 years, but if China grows at just seven percent per year, they’ll pass us in seven years.

*Wow. And their growth rates have been above nine percent annually for a decade or more.*

Right. I was on CNN back in March talking about this, after Alan Greenspan made a speech in Hong Kong. The *New York Times* came out with an article that said I was way overoptimistic, that according to the CIA Factbook numbers it would be 25 years. I told the reporter that the CIA was wrong. No disrespect to the CIA, but if you look at the numbers from the IMF and the World Bank, the CIA was wrong.

Lo and behold, the CIA revised its numbers three months



*Jim Trippon, editor of the China Stock Digest. Jim is a bestselling financial author who has appeared on CNN, FOX News, First Business, Oil & Gas Financial Journal, CBS Market Watch, and many other media outlets. His China Stock Digest has turned a \$1 million model portfolio into \$2.5 million in less than two years. Jim has agreed to give GEA readers a FREE special report on how to make the most money investing in China. Call 1-800-819-8693 to get your free copy.*

later. But nobody noticed, and of course, I’m not holding my breath for a correction from the *New York Times*.

China will be the biggest economy in the world. I don’t know why the media aren’t talking about it. Seems like the only stories they want to run are the ones about the “Poison-Me-Elmo” toys.

In fact, I have academics on staff from some of the top business schools in China. They’ve given me some financial data that haven’t been publicly released. These show China will pass us in less than 7 years. We’re talking possibly 3-5 years.

*China is already the largest exporter in the world. They passed Germany and the US just a few months ago.*

Yes. And people don’t realize the wealth that exists in China now.

China has more billionaires than any other country besides the United States. And there are now 345,000 millionaires in the country.

That’s why their stock markets are booming. PetroChina just had an IPO, and they were hoping to raise \$8.9 billion dollars. But subscriptions hit \$440 billion in just two days.

*The mainstream media all seem to be saying that China’s stock market is a bubble right now, so we should all stay out.*

There are still great, conservative opportunities in China. The average price-to-earnings ratio of my model portfolio is less than the S&P 500.

Yes, there is a bubble in China, but not in my portfolio, because we’re not buying those stocks.

*Can you give me a good stock recommendation to pass along to*

*my readers—maybe something related to gold or energy?*

Most of the Chinese gold companies are small stocks, trading over the counter. Our expertise is more large-caps. But there's a great metal and energy play right now: a company called China Direct, which trades on the AMEX exchange as CDS.

That's been my top speculative pick for two years running. We've owned it twice before—the first time we owned it we made 27 percent, and the second time we made 133 percent.

*You said this was a metals play. Which metal, specifically?*

Magnesium. This has become an important industrial metal, because it's very strong and it's also very light. It reduces greenhouse gas emissions because the more you use it in automobiles, the less fuel is used. It's also great for aircraft. And it's used in pretty much all the cellphones on the market.

The problem is that it's very expensive. It comes from a rock called dolomite, which is very common and is found all over the world. The problem is that it takes a great deal of energy to release magnesium from dolomite.

But China Direct has a great angle on this. They partner up with coal processing plants in China that have coal gas—basically a lower grade of natural gas. China Direct gets the gas essentially for free, because this is a waste product for these plants. They would have flared it otherwise—just burned it off.

So China Direct can extract magnesium in large quantities at virtually no cost. They now have seven plants, and they're building several more. It costs them about \$3 million to build a plant, for property and equipment, and another \$3 million in start-up capital. They recoup that in less than 18 months.

Right now the stock is trading in a range of \$7.50 to \$10. I'm telling my subscribers to put in a purchase order for the stock, good till cancelled, at \$8. It will probably trigger within a couple of weeks.

I expect that next year, this stock will be earning over \$1.25 per share, and I think it will be a \$15-20 stock. So in my opinion, you could easily double your money in the next 12 months.

*I know your service specializes in finding stocks like this. I'm impressed with your performance. Your success ratio is above 80 percent, isn't it?*

Yes. I'm not always right, but we're right more than 80 percent of the time. And we use stop-losses, so even our losers don't go down much before we get out. Our worst loss so far was 16 percent. But our winners can be huge—right now in our model portfolio, we have 10 stocks up over 100 percent each. There's one up by 274 percent, one by 268 percent, one by 175, and one by 163. And the other six are all above 130 percent.

*I've asked you to put together a special report for my subscribers.*

Yes. China is a huge opportunity for investors, but they have to know what they're doing. So I put together a free report called "Thirteen Pitfalls, Problems, and Questions Facing China Investors." It shows how to avoid the landmines that can blow up your portfolio, and how to make the most money from China.

To get it, your readers can call **1-800-819-8693**. Just tell whoever answers that you're a GEA reader, and want the free report. And again, it's absolutely free.

*Jim, thanks for a great interview.*

Thank you.

*(continued from page 7)*

occupies the minds of the generals in Beijing.

Yes, the Chinese military is hopelessly outclassed by the US military. But that doesn't matter at all. Mao started out in a far worse position, and he won.

As Sun-Tzu wrote,

*"I say that victory can be created. For even if the enemy is numerous, I can prevent him from engaging."*

Let's look at some of Sun-Tzu's wisdom on war, and how the Chinese are *already* using it against us in preparation for a fight.

First of all, the Chinese have been preparing for this conflict for a long time. As Sun-Tzu said,

*"War is a matter of vital importance to the State; the province of life or death; the road to survival or ruin. It is mandatory that it be thoroughly studied."*

They've studied the United States military carefully for decades. They know how the United States wages war. After all,

*"What is of supreme importance in war is to attack the enemy's strategy."*

Just as importantly, they know their own

weaknesses. Frankly, there are many of these. Nevertheless, the US has a few as well—and that's where they plan to strike.

*“An army may be likened to water, for just as flowing water avoids the heights and hastens to the lowlands, so an army avoids strength and attacks weakness.”*

Here's how the Chinese are preparing for a war with the United States.

They know our military has overwhelming advantages in certain areas: communications and intelligence, computers and automation, superior weapons, and, if all fails, the nuclear option. Their goal is to find one or more weaknesses that would make each of these advantages useless.

And it appears they've succeeded.

**Communications.** Our satellites in space provide American commanders with extensive, real-time information on the entire battlefield. Our weapons, planes, and ships are heavily automated and computerized, identifying targets and threats from miles away. And our soldiers can communicate better than those of any other military—even our ground troops are getting individual commo gear nowadays.

There's just one problem here. Our communications are utterly dependent on our satellites. But these are unarmored, and defenseless. Of course, that has never mattered, because nobody could attack them in space. Until now.

*Defense News* recently reported that China has fired powerful ground-based lasers at orbiting US satellites. Apparently, these aren't meant to burn or disable the satellites physically. That would require lots of energy, and it's unnecessary anyway.

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 our Lacrosse system.

The report said there has been a series of these attacks. Apparently, the White House has told the Pentagon to cover them up, to avoid stoking public outrage.

However, the Pentagon was not able to cover up a test China did last winter. The Chinese shot down one of their old weather satellites with a ground-based missile. US officials said the missile obliterated the satellite, even though it was 537 miles above the Earth.

This means our satellite network is potentially vulnerable to a Chinese attack. By attacking this one weak link, China can disrupt our entire mili-

tary's command structure. Not only that, they can instantly neutralize all of our precision-guided weapons that use GPS and other satellite technologies.

**Computer networks.** The US government has admitted that Chinese hackers have been attacking our computers for at least 4-5 years. Hundreds of networks have been breached.

This isn't the work of bored teenagers or random hackers. The *Washington Post* quoted a government official as saying, “This is an ongoing, organized attempt” to get information from our systems.

*Time* interviewed one counter-spy who worked for the FBI. He said these were highly skilled professionals: he “had never seen hackers work so quickly, with such a sense of purpose. They would commandeer a hidden section of a hard drive, zip up as many files as possible and immediately transmit the data... They always made a silent escape, wiping their electronic fingerprints clean and leaving behind an almost undetectable beacon allowing them to re-enter the machine at will. An entire attack took 10 to 30 minutes.”

These attacks are systematic and ongoing. They're also continuous, so apparently the hacker organization is staffed around the clock. The targets have included the Redstone Arsenal military base (the heart of our Army's rocket and missile programs), Army units (including the 82<sup>nd</sup> and 101<sup>st</sup> Airborne divisions), the Naval War College's computer network, NASA, military laboratories like Sandia, aerospace giants like Lockheed Martin, even the World Bank. The attackers have stolen everything from spaceship schematics to Army flight-planning software.

They've even penetrated the computer of Robert Gates, our Secretary of Defense. (He commands our entire military!)

There's every sign that this is a deliberate attack by the Chinese military. According to a recent Pentagon report, the People's Liberation Army wants “electromagnetic dominance” over its enemies. The report says the PLA has developed viruses and other “information warfare” capabilities to “attack enemy systems and networks.”

The *Wall Street Journal* ran a front-page story about Michael Pillsbury, a high-level Pentagon insider. Pillsbury has been studying China for over 35 years, is fluent in Mandarin, and has written several books on Chinese strategy. For many years he was enamored of China, but his fondness has turned to “suspicion.”

Pillsbury criticizes the “panda huggers” in our government who view China as a “gentle country intent on economic prosperity.” He believes Beijing views the U.S. as an “inevitable foe” and is planning for war. He says we “must acknowledge that we are facing in China what may become the *largest challenge in our nation’s history*” [emphasis added].

For a nation that fought in two global World Wars, and almost fought a nuclear war with Russia during the Cuban Missile Crisis, that’s saying a lot.

The *Journal* talked about China’s search for a modern “shashoujian”: an “assassin’s weapon” able to surprise and cripple a larger opponent. The Chinese are especially interested in “acupuncture strikes” to take out our military satellites, whether by firing missiles or launching cyber-attacks at our military computer networks.

Also, our military targets aren’t the only vulnerabilities we have. Sami Saydjari is a cyber defense expert working for the Pentagon. Last April, he testified to Congress that a mass cyber attack could leave 70 percent of the US without electrical power for up to six months. Banking systems were also being targeted by the Chinese, he said. They want to learn how to cause “maximum strategic damage.”

Incidentally, according to a recent Pentagon report, even our aircraft carriers are vulnerable to cyber attacks. An article in UK *Times* said, “Chinese military hackers have prepared a detailed plan to disable America’s carrier fleet.”



*The USS Kitty Hawk, which was successfully stalked by a Chinese Song-class attack submarine off the coast of Okinawa last year.*

Which brings up our next advantage of...

**Superior Weapons.** The American military has long been fond of big, expensive “superweapons” that are far ahead of any competing technologies. This approach has worked spectacularly well—but again, there are vulnerabilities.

A key to our entire geopolitical strategy is the aircraft carrier battle group. A single carrier can carry up to 85 planes, bristling with conventional and even nuclear weapons. We have 11 carriers (and are building three more). These allow our President to project overwhelming military force anywhere in the world.

Each battle group consists of a fleet of ships to tend and protect the central carrier. The carrier itself is weak and vulnerable to attack, so it relies on its outer screen of ships to protect it.

That’s why American admirals were shocked when a Chinese submarine successfully stalked and penetrated the *USS Kitty Hawk* battle group. It surfaced well within torpedo range of the carrier.

Nobody even knew it was there until a spotter plane happened to fly overhead.

Unlike our subs, almost all China’s submarines are diesel-electric. Our Navy disdains this older design, preferring nuclear subs instead. However, these boats have one huge advantage: unlike nuclear subs, they can be absolutely silent underwater.

The Kitty Hawk incident was a clear warning. Apparently, Chinese subs can penetrate our defensive screens at will.

In fact, for all we know, they might do this all the time. We wouldn’t have known the Kitty Hawk’s stalker was there, if its commander hadn’t decided to surface and let his sub be seen.

Again, one of our huge military advantages has been nullified.

**The Nuclear Option.** Nobody wants to attack a military armed with nukes. The threat of nuclear reprisal is the ultimate trump card.

Unless, of course, the attacker also has nukes. Which the Chinese do.

The US views its nuclear weapons as a deterrent. Unfortunately, the Chinese seem to view theirs as viable options to use during a war.

Warnings about this are coming even from Chinese nationals themselves. Wei Jingsheng is a Chinese dissident who spent 18 years in Communist prisons.

---

## **He recently told a National Press Club forum that the Chinese government is planning for a nuclear war with the United States.**

---

With one-sixth the world's population, the government is not afraid to sacrifice some of its people,

he said. As evidence, he quoted Chinese general Zhu Chenghu, who said the government was preparing for "the destruction of all the cities east of Xian." (This would include Beijing, Shanghai, and Canton.)

General Zhu was speaking about a war over Taiwan specifically. He also said, "If the Americans are determined to interfere, we will be determined to respond... I think we will have to respond with nuclear weapons... The Americans will have to be

### **Should we even defend Taiwan?**

**I** believe the answer is no. Here's why.

First of all, the US commitment to Taiwan was never about 'defending the free Nationalists from Communism'. There were never any free Nationalists to defend.

For most of its history, the Republic of China has *not* been a free country. Until recently, the Nationalist Party was the only party allowed. There was no freedom of speech, no freedom of association, and no freedom of the press. Strikes by students, shopkeepers, or workers were also forbidden.

Even though the ROC government fled to Taiwan in 1949, the first popular election wasn't held until 1996—almost 50 years later!

So we should admit that we haven't been 'defending freedom' for Taiwan. We've guarded Taiwan only as part of the broader front against Communism. We wanted an "unsinkable aircraft carrier" from which we could fight Communism in Asia and the Pacific.

And that's why we should let Taiwan go. Communism is dead.

Mainland China today is Communist in name only. The foundational premise of Communism is to deny private ownership of the "means of production"—in other words, businesses and capital. But China today enthusiastically endorses the ownership of both. The economy is transitioning to a free market.

Yes, China is still politically repressive. So are many other countries in the world. But we aren't picking any fights with them. Why should we antagonize China?

We need to acknowledge that the Cold War doctrine which needed Taiwan is obsolete. Today's war is on global terror. For that, we need China as an ally.

So we shouldn't provoke them over Taiwan. In fact, China took over Hong Kong a few years ago, and the people there are doing fine. The Taiwanese would fare just as well.

Lastly, even a limited war with China would have ugly consequences for US interests. Asian nations would be forced to choose sides between the US and China. This would damage many relationships we have there.

We'd especially torpedo our relations with the Japanese, since Japan's standing in the Pacific would suffer tremendously. (In a fight with China, our forces would have to use our military bases in Japan. Thus, Japan would be supporting our side of the war, even if they didn't want to be involved at all.)

Japan's primary concern today is to get the nukes away from their old enemies in North Korea. Without China strong-arming the Koreans, this will never happen. A war over Taiwan would kill Japan's chances of succeeding with this, and the Japanese would be very bitter toward us. Many Japanese already oppose our presence in their country—this would make it far worse.

Again, the primary threat we're facing today is global terror. We need cooperation from Asian and Pacific nations, not hostility.

Finally, Taiwan is a small island. If a shooting war ever erupted, there would be a lot of military hardware expended in a small area. When the smoke cleared, whatever was left over wouldn't be worth having anyway.

Conclusion: We should let Taipei make its own peace with Beijing and encourage a 25 year transition—along the lines of the transition that occurred between British and Chinese rule of Hong Kong.

prepared that hundreds of cities will be destroyed by the Chinese.”

Would the Chinese actually use nukes against us if we defended Taiwan? We don't know—and that's the entire point.

By brandishing their nuclear option, China has nullified *our* nuclear option. We're now far less confident about facing them in open battle of any sort. Which is exactly what they want to accomplish.

**Summary:** The Chinese now think they could defeat us, if a war broke out. I'm not saying they're correct. But they think they could, and that's all that matters.

---

## Will There be a War, or Not?

---

The Chinese are preparing for a push on Taiwan. By peaceful means or otherwise, they *will* “unite the motherland.”

Does this mean a war between China and the US?

Not if they can avoid it. This isn't because they know they would lose. On the contrary, I've already shown how they think they could win.

They would just prefer to resolve the situation in a peaceful way.

The Chinese approach war differently than Westerners. American and European military doctrine comes from Carl von Clausewitz, who famously said that war had only “three broad objectives, which between them cover everything: destroying the enemy's armed forces; occupying his country; and breaking his will to continue the struggle.”

The Chinese military mind disagrees with all three of these objectives. Again, their doctrine goes back to Sun-Tzu.

To him, war was only a means to victory. If victory can be achieved without any fighting at all, that would be preferable. He wrote:

*“To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill.”*

Plus, China wants to take Taiwan as a prize. Even a short battle on the island would damage it badly, and so they will avoid this if possible. As Sun-Tzu said,

*“Generally in war the best policy is to take a state intact; to ruin it is inferior to this.”*

So how do they plan to defeat us without fighting? The answer is clear.

*“Should one ask: ‘How do I cope with a well-ordered enemy host about to attack me?’ I reply: ‘Seize something he cherishes and he will conform to your desires.’”*

If the US tries to defend Taiwan, the Chinese can defeat us in a matter of minutes, without a shot being fired.

All they have to do is threaten to sell their reserves of US Treasuries and dollars. With \$1.43 trillion in foreign reserves, China could crash the dollar (or any other major currency) overnight, just by selling it off.

For some 20 years now, the US has indulged in a wild borrow-and-spend party. In the process, we've foolishly allowed the Chinese to amass a tremendous hoard of our currency and national debt. Our massive government overspending, and our lack of consumer savings, have combined to create an enormous trade deficit with China. We give the Chinese about \$21 billion net *every single month*.

Over time, they've patiently amassed hundreds of billions of dollars. Now the borrower will be slave to the lender. We will be the puppets, and they will be the puppet masters.

Obviously, the Chinese haven't exerted this leverage over us yet. It's far too valuable an asset to waste on small matters. (The Chinese media recently referred to a dollar sell-off as the “nuclear option.”)

However, to the Communists, Taiwan is the ultimate prize. So I expect they will finally use this, their greatest asset, against us.

Why haven't they threatened to use this weapon already? Because they weren't fully prepared to act. They believe surprise and swiftness are crucial to victory. As Sun-Tzu said,

*“When the thunder clap comes, there is no time to cover the ears... When the strike of a hawk breaks the body of its prey, it is because of timing.”*

Will the Chinese actually dump all their dollars? No. After all,

*“To a surrounded enemy you must leave a way of escape... Show him there is a road to safety, and so create in his mind the idea that there is an alternative to death. Then strike.”*

They don't care about the dollar itself. They only want to use their dollars to achieve their goals on Taiwan. They plan to strong-arm us into backing off, so they can take their prize intact.

In other words...

---

## We'll be blackmailed!

---

How do you control the American military? Easy—you control the politicians in Washington.

How do you control the politicians? Easy—you control Wall Street, which is where they get all their money.

So the Chinese will use their reserves to threaten our economy and rattle our cage. They'll knock the wind out of our currency and our markets, but they don't want to ruin us completely.

Otherwise, they would be hurt too:

- The US economy would crash, and their largest export market would dry up.
- The dollar's value would plummet quickly, probably before they could sell all their reserves. Thus, they would lose much of their reserves' value in the process.
- Other nations that still held dollars would lose the value of their reserves as well, creating international bitterness and hostility to China.

But aren't they afraid that wrecking the dollar would wreck their economy as well? They used to be, but they're not that concerned anymore.

They've amassed such a huge cash hoard that they could ride out an economic storm for quite a



## “Investing in rare gem-quality Chinese, Asian, and selected European coins could give you profits of 1,000%, or even 5,000% in the next 5 to 10 years.”

**I**n the late 1980s and early 1990s, I started buying gold, platinum, and even copper Russian coins (pre-1917) in Gem Condition. I reasoned that gem Russian coins pre-1917 revolution were 100 times rarer than their US counterparts, yet were trading at 5% to 10% of the price.

Virtually the entire dealer community in the United States thought I was nuts. But I was 100% right, while they missed the boat.

The naysayers insisted there wasn't a market for gem rare coins in Russia. The country couldn't even pay its bills. Thousands of soldiers from the former Soviet army were begging in the streets for food. Russia was in such terrible shape that it missed payments on its foreign debt.

However, I had no doubt that Russia would bounce back. It has some of the largest energy and mineral reserves in the world. Plus its population is well educated. I knew millions of Russian millionaires would be created—

and the more millionaires, the more rare coin buyers.

As the economic situation improved, Russian coin buyers emerged. It became harder and harder for me to buy gem Russian rare coins, but slowly (over a period of 10+ years) I managed to build quite a collection. In September, I decided to put a small group of these coins in a major US auction held in Long Beach, California. And my predictions of profits were proven conservative.

Coin after coin brought profits of 500%, 1,000%, even 10,000%. For example, a tiny 19<sup>th</sup> century Russian copper coin I bought for \$350 just 4 years earlier brought \$18,500. A Russian silver dollar I bought for \$2,500 brought \$25,000. A small Russian gold coin I paid \$1500 for in 1991 brought over \$20,000.

(By the way, Russia is the only country I know of that struck platinum 19<sup>th</sup>-century coins. I recommended them in 2004. If

you bought one or two, you should be up 100% to 500%.)

Russian coins are incredibly hot right now. My public predictions (made as early as 1989) are among the most profitable investment recommendations I've ever made. I believe many will double and re-double in price the next several years, thanks to the weakness in the US dollar and the rapidly growing consumer market in Russia. (I'm still holding a double row box of gem Russian coins. I'm not likely to sell these for a few more years.)

However, the ground floor opportunity to buy investment-grade Russian coins has now passed. Now I'm buying gem-quality pre-1949 Chinese, Japanese and Asian gold, silver and base-metal rare coins.

China's economic boom will drive the price of Chinese and Asian coins through the roof in the next 10 years. I'm expecting to see profits of 1,000% to 5,000% as a few million new Chinese millionaires and a few thousand

while. Also, thanks to their booming trade with the rest of Asia, they now feel confident that they could replace any trade lost with the US in fairly short order.

Thus, all that remains is the timing...

---

## And here's how I expect this to play out.

---

Once China decides to move on Taiwan, it will privately warn the US to keep out.

Given the current Administration's past actions and attitudes, I expect the US will be defiant. There

might even be a public declaration of support for Taiwan.

Shortly afterward, China will announce a sell-off of some of its dollars. (They may or may not openly connect this action with Taiwan.)

The greenback will plunge 15-20 percent in one or two days. The Dow will get whacked—it will drop by at least 1,000 points. Gold will soar—\$2,500 per ounce seems reasonable.

The US will be humbled. Privately, the Taiwanese will be warned that they're on their own. Facing a Chinese invasion with no support from the US, Taiwan will quickly negotiate with the mainland government.

*(Gem Foreign Rare Coin Story cont'd)*  
billionaires are created. If only two or three hundred of these new mega-wealthy Chinese start collecting their rare numismatic coins, my price predictions will be very conservative.

You see, just like in Russia, when the Chinese communists took power in 1949, they not only confiscated their citizens' wealth, they literally destroyed any symbol of the nationalist Chinese government.

Many of China's dearest numismatic treasures were damaged or outright melted. So, just like Russian coins, rare Chinese coins are very difficult to find.

### **James DiGeorgia's Numismatic Treasure & Wealth Builder Service— limited to just 25 sophisticated investors.**

Over the next 2-3 years, I'll be buying investment quality 19<sup>th</sup>-century Chinese, Japanese, Asian and pre-19<sup>th</sup> century European rare coins. Each coin I buy will be for my personal investment portfolio.

I'll also buy the same kinds of coins for a handful of sophisticated investors—no more than 25. These will be the members of my Numismatic Treasure &

Wealth Builder Service. Here's how it works and how to join....

To join this exclusive service for the next 3 years, call **1-866-697-GOLD (4653)** and ask for Arianne. She'll arrange to invoice you for an initial \$5,000 member fee. This fee is good for 3 years. It will cover my exclusive email updates on this area of the numismatic market, and personal one-on-one tele-conferences as coins become available.

Each member of the Numismatic Treasure & Wealth Builder Service will be required to deposit a minimum of US\$100,000 with Finest Known, Inc., my rare coin company. As I acquire these investment-quality 19<sup>th</sup>-century Chinese, Japanese, Asian and pre-19<sup>th</sup> century European rare coins, they will be shipped to members in rotation. (This way, everyone gets some of these amazing coins as I buy them.) I'll also be sending you books and research notes as I pick them up (at my expense).

When your coin-buying deposit sinks below \$10,000, we'll offer you another chance to deposit more for additional purchases.

Each coin I buy and send to you will be graded independently by either NGC or PCGS, the two best grading services. All

coins will have low markups—no more than 20% above the cost of acquisition. You'll literally be buying the same kinds of coins I'm buying for my own portfolio, at just above my cost.

The rare coins I'm hunting are really amazingly rare. Many will be one-of-a-kind 'finest known' examples. Others will have extremely low populations of 25 to 50 coins remaining in existence, or even less.

Finding \$2.5 million of these coins in 2008 is going to be a challenge. It may well take longer than 1 year. That's why I'm giving a three-year membership to this service, and limiting it to just 25 sophisticated and savvy investors. Working with more members than this would be too much for me to handle. On this program, I want to work with everyone directly: no middlemen or salespersons.

By the way, because you'll be working directly with me, I'll need a daytime and cell phone number from every member. That way I can reach you at a moment's notice, when an opportunity pops up.

**Call 1-866-697-GOLD (4653)** and ask for Arianne to become a member today of my Numismatic Treasure & Wealth Builder Service.

Taipei and Beijing will announce a peaceful reconciliation, by which Taiwan “returns” to the motherland and “One China” is restored. The mainlanders win, while the islanders and the US lose.

However, the US will be allowed to “save face,” since no military confrontation actually took place. Thus, it didn’t publicly abandon its ally.

After the crisis is over, will the dollar recover? No. Whether or not the US publicly backed down, everybody will realize the Chinese whipped us.

Once we’re no longer an unbeatable superpower, our currency will be no better than any other. Actually, with its heavy debt load, the dollar will be *worse* than many other currencies. And its value will fall accordingly.

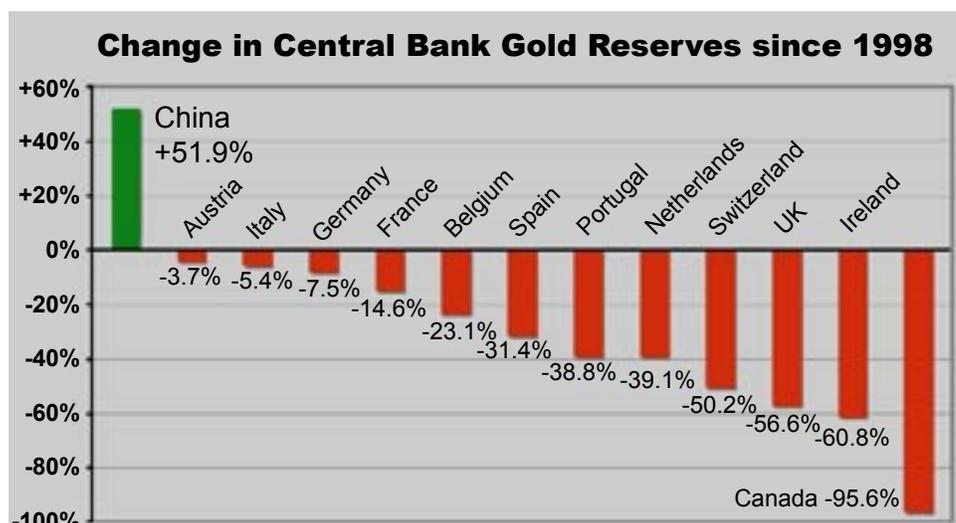
---

## The Balance of Power is Shifting. Here’s How to Prepare.

---

To be blunt, China has us by the throat.

Unfortunately, I think our government leaders will be too proud to realize this. So I expect we’ll have to learn the hard way.



### China and the Price of Gold

Over the last decade, almost all Western and European central banks have been selling off their gold. Only a few central banks, including China’s, have been accumulating the yellow metal instead.

China currently has 600 tonnes of gold—about 1 percent of its total foreign exchange reserves. Lately, several prominent Chinese economists have been urging their government to increase gold holdings to 5 percent.

If China quintupled its gold reserves, that would vacuum 2,400 tonnes of metal off the market. *That’s more than last year’s entire mining supply.* Gold’s price would go ballistic!

This means the dollar is going to take a pounding. The broader stock market doesn’t look too appealing, either.

If China ever makes a serious threat to dump its dollars, investors who are heavily in cash are going to rue that day for the rest of their lives.

Gloom and doom? Not at all. In fact...

---

## I’m a Wild Optimist!

---

The Chinese aren’t stupid. They know they benefit far more by trading with the US than they would by fighting us. So I don’t think a shooting war will happen.

Yes, the dollar is going down. But frankly, it’s long overdue for that anyway.

I’m hopeful that after China roughs up our currency, it will (finally) bring some fiscal sanity to our leaders in Washington. Nothing like a good slap in the face to wake someone up, after all. And this one will be a doozy!

Once we realize the balance of power has shifted, this will be a good thing for America. We have the strongest, most productive economy the world has ever seen, but we’ve grown lazy.

Once we realize we have competition, I expect the American people will roll up their sleeves and start getting serious again.

We’ll borrow and spend less, and produce more. And long-term, that’s a recipe for stability and prosperity.

First, though, will be the short-term agony. And that’s the point of this issue. We need to prepare for it.

I’m telling everybody I know to pile into gold. If a Taiwan crisis occurs, gold will skyrocket. We’ll see panic buying in the metal—waves and waves of it.

I recommend you establish a strong gold position now. In the best case, China will wait until after the Olympics next year to settle the Taiwan issue. In the worst case, the Taiwanese will do something stupid before then, and provoke the mainlanders into squashing them immediately.

There’s no way to know when it will happen. So prepare today!