GOLD & ENERGY ADVISOR

Vol. IX, No. 4 $19 April 2012

"New Threats to Your Wealth—And How to Avoid Them!"

"2012 is a Presidential election year. This means we're going to be bombarded with political and financial 'spin'. Now more than ever, it's vital to see through it.

"This year will bring several major threats to your wealth and prosperity. Here's what to watch for!"

James DiGeorgia, Editor

As this year's Presidential election approaches, the America public is going to hear from two opposing sides.

One man will claim that the US economy is recovering from the worst crisis we've seen in generations. (He'll claim that this proves that he should be re-elected, so he can continue to lead this effort.)

The other side will claim that the economy has *not* recovered as much as it should have. (He'll claim that this proves that he should replace the current President.)

Both men will be wrong—and right.

On the one hand, the economy is certainly better than it was in 2007/2008. But that's not saying much, since four years ago it was on the brink of collapse.

On the other hand, we're now entering one of the most threatening global environments we've seen in years. This is true not only financially, but also militarily.

Let's start with the latter. The Middle East continues to slide closer to war, as…

Syria Agrees to Cease-Fire, But Continues Killing Its Citizens

Last month's *GEA* discussed why Syria is threatening to ignite a multiple-front war in the Middle East.

The tension was supposed to have dissipated this month, when the Syrian government agreed to an internationally mandated ceasefire. But it hasn't.

Despite the ceasefire, the army has continued attacking various areas, including indiscriminate shelling of civilian targets.

The United Nations has monitors in Syria to make sure the agreement is observed. But as the *New York Times* noted, government forces merely wait until the monitors leave, then "resume attacks where the United Nations had just visited."

The killing hasn't stopped. The ceasefire is a complete sham.

This isn't surprising. As I mentioned in Update #1303, the agreement wasn't a real solution.

Even though more UN observers are scheduled to arrive in Syria later this year, the world has merely kicked the problem down the road temporarily.

THE GOLD AND ENERGY ADVISOR

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The **GOLD & ENERGY ADVISOR** is published 12 times a year by Finest Known, 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.

Syrian dictator Bashar al-Assad has no intentions of stepping down. He'll massacre as many people as necessary to maintain his grip on power. And he has the backing of Russia, China, and others.

Arrayed against him are nations such as Turkey and the United States. Turkey is openly supporting anti-government forces. Meanwhile, US political leaders like John McCain are beating their chests and demanding an American intervention into the conflict—one in which Russia and China might be on the other side.

Although the ceasefire has dampened media coverage of Syria, it's still a flashpoint for war—possibly involving several major nations, including the United States.

And along with this growing military threat in the Middle East, there's also…

The Financial Danger in Europe

Remember when the Euro was created? Remember the confident proclamations from across the Atlantic, that the US financial hegemony was over? Remember how a unified Europe would soon become the world's largest economy, and a new era of global prosperity had begun?

That initial euphoria has now turned into despair. Today, the European economy is deathly ill. Life-support is being provided by the European Central Bank (ECB), which has pumped over one trillion Euros into the system. But the patient still looks terminal.

Officials had hoped that floods of liquidity would stimulate more lending by banks, not only to businesses but also to the PIIGS nations (Portugal, Ireland, Italy, Greece, and Spain), which are in desperate need of cash.

That's not what is happening. Instead, banks are (quite reasonably) leery of lending more money to anybody in today's environment, least of all the PIIGS. So they're hoarding the money instead.

For example, after the ECB's second round of three-year loans, its overnight deposits skyrocketed to an all-time record of €776.9 billion (the equivalent of more than one trillion dollars). The previous day, deposits were only €475.2 billion.

The ECB can flood the system with money, but it can't force any bankers to loan it out. Hence, its biggest and most important financial tool is turning out to be useless.

And the timing for this impotence couldn't be worse.

You see, there's this little country on the Mediterranean Sea.

For years, it has indulged in ruinous levels of spending. To finance its blown-out budgets, it sold mountains of bonds at ridiculously low interest rates.

Why were the rates so low? Because the bonds were denominated in Euros, just like every other Eurozone nation. And the bonds were assessed as if this country were just as solid as other Eurozone nations like Germany.

But now the party's over. Investors have woken up and realized that this country is fac-

The Growing Danger of Cyberwar

Richard Clarke was the counterterrorism czar to three Presidents, and now runs his own cybersecurity firm. According to a recent interview he gave to the *Smithsonian*, the US recently gave a massively powerful new cyberweapon to our enemies. One that they can and will use against us.

You might have heard of Stuxnet, the brilliantly engineered computer virus that destroyed much of the equipment within Iran's nuclear program. Within the security community, it's recognized as a masterpiece, because of its destructive power, the stealthy way it accomplished its mission, and the complexity required to do it all so well.

Stuxnet spreads itself around, copying itself from computer to computer. When it runs, the first thing it does is check to see if it's running on a computer that controls a specific type of uranium centrifuge found in the Iranian nuclear program. If not, it does nothing. But if it is, it causes the centrifuge to destroy itself in a brilliantly sneaky way (the operators don't have a clue what's happening until the deed is done).

Stuxnet has now spread around the world. Most people assume that it's harmless, because the virus is benign to every computer in the world except those specific machines found in the Iranian nuclear program.

But Clarke says otherwise.

He believes that a crucial part of Stuxnet failed—that after the virus blew up the Iranian nuclear centrifuges, it was supposed to erase itself from those computer systems.

Because it didn't do so, it continued to spread around the world.

True, it hasn't harmed any other computers, nor will it ever do so. But according to Clarke, its spread is a massive blow to the security of the United States.

Stuxnet was a brilliant piece of work: the first-ever weaponized software. It pioneered several new cyberwarfare techniques that were only previously known by the government that created and launched it.

Now that the virus is spread, it's on computers all over the globe. Clarke says we can assume that most of the malevolent computers hackers in the world (including those employed by terrorists) have obtained a copy by now, reverse-engineering its code to study it and incorporate its secrets into their own arsenals of malware. He warned:

"If you're a computer whiz you can take it apart and you can say, 'Oh, let's change this over here, let's change that over there.' Now I've got a really sophisticated weapon. So thousands of people around the world have it and are playing with it. And if I'm right, the best cyberweapon the United States has ever developed, it then gave the world for <u>free</u>."

ing financial disaster. Nobody wants to lend to it anymore, and its bonds are plunging.

Too late, this little nation is trying to reign in its runaway spending, so that its bonds won't implode completely. But its bloated public sector has created a horrible dilemma. The more the government tries to cut spending, the more its economy crumbles.

And the more the economy sinks, the worse the government deficits become, requiring even deeper budget cuts. And down the nation goes, caught in a death spiral.

This is a nightmare for all of Europe. Across the continent, banks had invested heavily in this nation's bonds. (Why not? After all, the Eurozone was going to become the world's strongest economy.)

Now Eurozone banks own piles of these toxic bonds—which are plunging in value.

As the bonds sink, the banks' balance sheets are being turned upside down. It's widely believed that one or two major banks are on the brink of collapse (although no one knows which ones).

If this occurs, the entire European banking system could melt down.

To avoid this fate, banks are eyeing each other nervously. Nobody wants to lend to an institution that might collapse immediately afterward.

So interbank lending is freezing up. The short-term credit markets are evaporating, which are vital to large industrial businesses throughout Europe (which often need short-term credit to finance their operations).

Thus, even if a major meltdown could somehow be avoided (which is still doubtful), the Eurozone economy will still continue to plunge into deep recession. Maybe even depression.

So which Mediterranean nation is triggering an implosion of Europe? You might be thinking I'm talking about Greece—but I'm not.

I'm talking about…

Spain!

As I've said in past issues, Greece was only the first of a series of sovereign debt disasters that would pummel Europe.

Even while the Greek bond crisis is still raging—even while it threatens to sink major banks in Europe—another similar (but larger) catastrophe is piling on.

In just four years, Spanish debt has soared from 35.8 percent of GDP to an estimated 79.8 percent for 2012. Unemployment has hit record highs. Draconian austerity measures have the population rioting in the streets against the government. Bond rates are shooting up, creating a vicious cycle of skyrocketing debt and rising unemployment.

It's Greece all over again, except for one crucial fact…

Portfolio Update

In Update #1301, we issued new short put recommendations on Occidental Petroleum (symbol OXY) and Anadarko Petroleum (APC). On OXY, we sold the May $85 puts (symbol OXY120519P85). On APC, we sold the May $70 puts (APC120519P70).

In Special Report #088, we opened a new position on Total SA (TOT). We sold the May $50 short puts (TOT120519P50).

In Update #1305, we rolled up our April $29 puts (SGY120421P29) on Stone Energy (SGY). We bought to close the April puts, and sold short the June $28 puts (SGY120616P28).

In Update #1310, we took short-term profits by selling our shares on Talisman Energy (TLM). Our returns were 5.4% over about 4 months.

In Update #1313, we took quick profits on our short puts on Denbury Resources (DNR) and Continental Resources (CLR). On DNR, we bought to close our May $18 puts (DNR1260519P18). Our profit was about $40. On CLR, we bought to close our May $75 puts (CLR120519P75). Our profit was about $140.

Spain's economy is almost five times larger than Greece's!

The scale of the Spanish disaster means that no bailouts are possible this time around. As John Mauldin has noted, Spain is too big to fail and too big to save.

(Not to mention that the northern European economies have been bled dry by the previous bailouts. They don't have any money left anyway.)

So there's no way to stop the looming disaster in Spain. And no way to stop Spanish bonds from collapsing… which would, it's believed, destroy one or more large European banks.

It's no wonder that Moody's is thinking of downgrading its assessments of 114 financial institutions in 16 European countries.

But we as Americans shouldn't be smug about the Eurozone getting its comeuppance. Here in the US, we've created our own financial catastrophe, because…

Washington's Spending Threatens to Destroy the Dollar

Washington is completely out of control. On a net basis, Congress now borrows 8.6 percent of GDP (Gross Domestic Product) per year.

This is more than double its historic per-decade averages (going back to the 1950s) of 0.6-3.9 percent.

The US government currently spends over <u>one trillion dollars</u> more each year than it receives in taxes and other revenue. That's an average of $8,771 in new debt per household—*each year*.

Washington is borrowing over $2.41 million per *minute*, 24 hours per day.

But what happens when the money spigot is turned off? What happens when nobody will lend to the government anymore?

The question seems absurd. After all, US Treasuries are considered one of the safest investments on Earth. There seems to be a limitless demand for US debt.

But that's an illusion. A very dangerous one, in fact.

Former US Treasury advisor Lawrence Goodman recently exposed the truth about this in a *WSJ* opinion piece. Goodman pointed out that the recently released Federal Reserve Flow of Funds report for 2011 reveals that global investors are fleeing US Treasuries.

Even while the US government plunges further into debt, and desperately needs to find buyers for a tsunami of Treasuries, nobody wants to buy them anymore.

At first, this seems like nonsense. After all, interest rates are still at rock-bottom lows.

If buyers were boycotting Treasuries, the debt instruments' interest rates should be far

Gold & Energy Advisor producing almost $600 per month—as usual

For the first three months of the year, the *GEA* model portfolio has taken in $1,724 in option premiums. That's almost $600 per month.

Most other investment advisories would kill to get returns like this, but we've been doing it for years. (Since 2009, our average cash flow has been $544 per month.)

As I explained in *Update #1309*, April will be quieter than normal. But I expect the pace to pick up again as we go into summer.

Also, our first-quarter return on the portfolio is 6.8 percent. Annualized, this is about 27 percent; again, this is consistent with our long-term average (29.1 percent per year).

And we're doing this even while the markets aren't doing well. The energy exploration & production stock index (symbol EPX) is <u>down</u> 5.11 percent year-to-date. (That's an annualized loss of over 20 percent.)

If you aren't acting on our trading recommendations, you should be.

higher than today's rates.

Plus, we're constantly being reassured that despite the continual spending orgy in Washington, global investors are still eager to lend to the US. As former Federal Reserve Board Vice Chairman Alan Blinder recently testified before the Senate Budget Committee, "If you look at the markets, they're practically falling over themselves to lend money to the federal government."

But a closer look reveals that…

This is a lie!

Foreign investors have started holding their noses when Uncle Sam offers them more debt. Foreign purchases of US debt have plunged from nearly 6 percent of GDP in 2009 down to 1.9 percent of GDP today.

And the US private sector is doing the same. Banks, corporations, mutual funds, and individuals used to buy a collective 6 percent of GDP or so in federal debt each year. That number has plunged down to a mere 0.9 percent.

Who then is lending Washington all that money for its blowout spending? The answer is…

The Federal Reserve!

In 2011, the Fed bought a stunning 61 percent of the Treasury's net issuance. The Fed is financing this by a massive expansion of its balance sheet.

This is a grave danger to the US dollar.

A central bank which creates money to buy its government's debt is the *classic* definition for money printing. You couldn't inflate the dollar more directly than this.

And we know what happens when a currency is inflated too much and for too long. Its value plummets. If the government doesn't reign in its spending quickly enough, runaway inflation will then destroy the currency.

So why hasn't this hit us yet? Part of the reason is that we're experiencing asset deflation in some parts of the economy (especially housing).

Another reason is that the Fed's action is concealing the widening chasm between Washington's ravenous hunger for money and the market's unwillingness to provide it.

Normally when a nation overspends, interest rates on its debts would rise. The market would discipline the government and force it to get its fiscal house in order.

But that's not happening here. By providing artificial demand for Treasuries, the Fed is keeping rates artificially low. This masks the growing fiscal imbalance between the US government and the markets.

The scary thing about these types of imbalances is that they tend to grow slowly, but correct very quickly. America's fiscal situation is growing very unstable.

As the saying goes, there's no such thing as a free lunch. If the dollar is being inflated, then its inherent value is eroding rapidly. The longer the Fed covers this up, the more <u>violent</u> the eventual backlash will be.

Once the correction arrives, all that built-up inflation will come crashing home at once.

So What Should We Conclude From All This?

The Euro is in serious trouble. This is good news for the dollar, but not as good as it should be—because the dollar too represents a government that has spent itself into near-bankruptcy. The dollar could conceivably end up in worse shape than the Euro, once its day of reckoning arrives and the Fed's continual inflation catches up to it.

Meanwhile, the central banks of both Europe and the US are creating trillions of 'funny money' notes, trying desperately to print their way out of the traps they've made for themselves.

The other major currencies are little better. The central banks of England and Japan are also flooding their economies with cash. All of this means the value of their currencies will be driven down.

Short-sighted analysts are proclaiming

Washington Is Lying to You—Again

A few days ago, the trustees for Social Security and Medicare released their annual financial reports on these programs.

You might have seen the news reports about the decline in the funding of Social Security, officially known as the Old-Age and Survivors Insurance and Disability Insurance Trust Fund (OASDI).

Last year, the trustees said that OASDI would run out of funds in 2036. This year, they've revised that number to 2033—three years earlier than last year's prediction. As for Medicare, its funds will supposedly be exhausted in 2024.

But they're lying to us.

In reality, Social Security as a government program is already bankrupt. Buried deep in the trustees' report is this vague comment:

"Annual OASDI cost exceeded non-interest income in 2010 for the first time since 1983. The Trustees project that cost will continue to exceed non-interest income throughout the 75-year valuation period."

Translation: since 2010, Social Security has been taking in less money ("non-interest income") than it pays out each year. And this deficit will continue forever.

The trustees assure us that this isn't a problem. The deficit is being made up by "interest income" from the US Treasury bonds that the fund owns.

The same is true for Medicare. It too is running a deficit in 2012, which is made up by "interest income" on its Treasuries.

Wait a minute. Who pays the interest on Treasuries? The US government, of course.

But Social Security and Medicare are US government programs. In other words, the US government is paying interest to itself.

And since the government runs trillion-dollar deficits each year, Washington is *borrowing* money to pay interest to itself.

Or at least it would under normal circumstances. As I discussed earlier, Washington is *printing* the money (via the Federal Reserve), while pretending to borrow it from the market, so that it can pay interest to itself (i.e., the entitlement programs), so that it can pretend the programs aren't bankrupt.

This ridiculous farce would be laughable, except for one thing.

Its sole purpose is to deceive us about the true state of our nation's finances.

What does this say about the trustworthiness of our political leaders?

that this creates great opportunities. The global flood of easy money will probably cause more asset bubbles. And riding a bubble up can be wildly lucrative.

However, bubble-chasing is dangerous. Bubbles always pop eventually, and the crash can wipe you out.

That's why I continue to recommend that a large part of your investing capital be dedicated to my energy stock recommendations. The energy market is solid; the global thirst for oil isn't going away anytime soon.

If a bubble does happen to form here, we'll make a killing. If a bubble doesn't form here, we can still do very well because of the inherent opportunities in energy.

Our long-term average return in energy stocks is 29.1 percent, with about $544 per month in incoming cash flow. As I note elsewhere in this issue, our results in 2012 are on track with this.

At the same time, I strongly believe you shouldn't put all your eggs into one basket. The world's major currencies are all in serious trouble. Thus, you should diversify some of your capital into counter-currency assets.

Chief among these is gold. When currencies fall, precious metals rise.

This alone is good reason to store some of your wealth in gold. Even if the dollar falls, you're protected. But there are more benefits here than just wealth preservation.

Because gold's counter-dollar properties are widely known, investors flock to the metal when currencies sink. This means that not only is your wealth preserved, you can make lucrative profits as well.

We see this effect already at work. Since I started recommending gold to *GEA* readers in March 2004, the dollar's purchasing power (as measured by the CPI index) has fallen by 18 percent. Yet gold has soared from $390 to as high as $1,895 in that same period: a rise of 385 percent.

Contrast this with conventional investing advice. Buy-and-hold in the stock market hasn't worked for years. Since 2007, the S&P 500 has crashed three times, and is still down by more than 10 percent from its previous high.

Meanwhile, other funds that you might have been counting on for retirement are evaporating. For more about this (especially the recent announcements on Social Security and Medicare), see the sidebar on page 7.

In a Presidential election year, we'll be bombarded by spin from all sides. I urge you to see through it all and think clearly about the future. Your financial security is at stake!

Do you think that a government that prints money and borrows it from itself is on a firm financial foundation? Do you think the dollar has a strong future? Do you think the problems in Europe will be settled without massive disruption to global markets?

If the answer to any of those questions is "no," then you should consider adding more gold to your portfolio. You'll thank me for it later!

Gold Useful in Fighting Cancer

A recent issue of *Chemical & Engineering News* described a new cancer treatment using gold nanoparticles.

For some time, scientists have been trying to use red blood cells to deliver anti-cancer drugs to the sites of tumors. Red blood cells circulate throughout the entire body, and are ignored by the body's immune system. Also, several years ago a process was discovered where technicians can load drugs and medicines into these blood cells.

The problem was that nobody could figure out how to get the cells to release the drugs at the desired location.

A promising new approach involves coating the cells with gold particles before releasing them into the body. Technicians then bathe the site of a tumor with light from infrared lasers. This in turn heats up the gold particles on the blood cells in the vicinity. This stimulates the blood cells to temporarily open the pores in their membranes, allowing the drugs inside to escape and attack the tumor directly.

This has several advantages over existing chemical therapies, including the fact that the blood cells are left intact after the treatment.

Examples like this refute the accusations you often hear from gold bears. Anti-gold analysts claim that gold has no inherent value—it's merely a relic leftover from past cultures. Thus, they say you should avoid it as an investment.

This claim is ridiculous. Gold is an element with many unique properties that make it indispensable in a wide variety of industrial applications. And new uses for it are being discovered all the time.

Gold's beauty and long history as a monetary metal make it an excellent way to store wealth and protect yourself against inflating paper currencies. But the yellow metal also has many reasons why it's valuable in its own right.

And that makes it even better as an investment.