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“Chaos in the Middle East!”

“Not one, not two, but three potential wars are looming in the Middle East. Any one of the three could erupt within the next few months.

“A Middle East conflict would be disastrous for the global economy. The United States would probably get sucked into direct involvement. In fact, Washington is already planning for this.

“While the American media blather about scandals and celebrity gossip, much more important events are about to overtake us. Here’s what’s going on!”



James DiGeorgia, Editor

Turmoil in the Middle East is growing to frightening levels.

Egypt is sliding towards a potential civil war, threatening much of the world’s oil supplies in the process. Israel is preparing to attack Iran. And the ongoing crisis in Syria is becoming explosive.

Most of the Middle East is involved in these conflicts in one way or another. And there are multiple fuses on the regional powder keg. Lighting any of them will ignite the whole thing.

Here in *GEA* we’re all about helping you to protect and grow your wealth. Sometimes, protection is more important than growth. And right now, there are clear and present dangers to your prosperity.

The first one we’ll discuss is...

The Political Disaster in Egypt

Egypt’s Muslim Brotherhood has finally achieved the goal set at its foundation 84 years ago: taking over the Presidency of Egypt.

Elections were held last month. Muhammed Morsi of the Brotherhood was the winner, with 51.73 percent of the vote. His opponent was the former prime minister under Hosni Mubarak.

The fact that Morsi could barely beat one of the top officials from the hated Mubarak regime (which was overthrown last year) speaks volumes. Apparently, almost half the electorate understood that the rule of the Brotherhood will be even worse than Mubarak was.

The Brotherhood is now demanding that the Supreme Military Council (which has ruled Egypt since Mubarak was toppled) must grant sweeping powers to Morsi immediately.

They also want military backing in their planned transformation of Egypt into an Islamic Republic (similar to Iran).

Often in the American media, the Muslim Brotherhood is portrayed as a benign group, working to establish freedom in the Middle East by overthrowing dictators. But this isn’t true.

Yes, they’ve been criticized by Al Qaeda for being too moderate. But that hardly says much.

Instead, the Islamist victory in Egypt is a

betrayal of the peaceful, secular state that last year's revolutionaries were trying to achieve.

Few Americans are familiar with the Muslim Brotherhood. It was founded in 1928 by Egyptian schoolteacher Hassan al-Banna.

Banna wanted to promote Islam through political activism, charity work, and outreach to non-Muslims. His ultimate goal was an Islamic government based on Sharia law.

The new organization caught on quickly, becoming a large-scale movement all across the Middle East. In just the first twenty years, membership reached two million.

As it grew, the Brotherhood also radicalized. Its leaders discarded Banna's peaceful philosophy in favor of violence.

Things came to a head in 1948. As rumors swirled that the Brotherhood was planning a coup to overthrow the government, Egyptian Prime Minister Mahmoud Pasha banned the organization. He was promptly assassinated.

Hassan al-Banna publicly condemned the killing of Pasha. Terror is not acceptable for Islam, he said, and this was a betrayal of his original goals for the Brotherhood.

So the Brotherhood assassinated him too.

Since then, the Brotherhood has been involved in numerous massacres, bombings, assassinations, and other acts of terror. While some members work to maintain an image of legitimacy by being (peacefully) active in politics, others work behind the scenes to achieve their goals by more sinister methods.

As former White House counterterrorism chief Juan Zarate has said, "The Muslim Brotherhood is a group that worries us not because it deals with philosophical or ideological ideas but because it defends the use of violence against civilians."

Today, for the first time ever, a Brotherhood member has been elected to the Presidency of a nation. What can we expect from him?

Look no further than the speeches given at his political rallies during the campaign. Perhaps the most telling was the speech by cleric Safwat Higazi, who proclaimed that Morsi would liberate Gaza.

This would require invading Israel.

It was also promised that Morsi would restore the Caliphate of the "United States of the Arabs" with Jerusalem as its capital, and

that "our cry shall be: 'Millions of martyrs march towards Jerusalem'."

Morsi claims to be for peace. But there's little reason to believe him.

And there's one more twist to this. Since the overthrow of Mubarak last year, Egypt has been without a constitution. One of the first tasks of the newly-elected President will be to oversee the creation of a new constitution.

Egypt is one of the largest and most powerful nations in the Middle East. Now its national constitution—its foundational document, reflecting its most fundamental principles—will be created by the Muslim Brotherhood, which is eagerly awaiting "millions of martyrs marching towards Jerusalem."

This is a geopolitical disaster.

About the only good news is that Morsi will not have full powers as President—yet.

The situation is complicated, but here's a summary. When Mubarak was overthrown, the military's Supreme Council stepped in to rule Egypt until elections could be held to create a new government. But when it became clear that Islamists might win the elections, the Supreme Council formally gave itself full political authority in the country. So far, the generals in the Council are refusing to give up this power to the new Islamist regime.

But that good news is, at the same time, bad news.

The Islamist faction has a politically legitimate claim to power. And Morsi wants it immediately.

All of it.

Conversely, the secular faction, led by the generals in the Supreme Council, has no real right to keep power. But they do have much of the military on their side, along with a (justified) deep fear and distrust of the Islamists.

The tension in Egypt grows daily. More and more people are talking about a civil war between the seculars and the Islamists.

This is the first of the three wars currently threatening the Middle East. It's also, in a way, the least important. The Islamist momentum

seems unstoppable. Even if a war occurred and the secular side won, it would be a temporary victory.

One way or the other, the Brotherhood will probably gain full political power eventually.

Obviously, the situation in Egypt is a disastrous development for both Israel and the United States. After decades of peace on its western border, Israel has a new enemy there instead.

As for the United States, we are about to see an openly Islamist nation in control of a large part of the world's oil supplies, along with overall commerce.

Egypt controls the Suez Canal. This is a vital passage for global shipping. About 7.5 percent of all sea traffic passes through it.

Egypt also controls the Sumed pipeline, which transports over a million barrels of oil per day from the Persian Gulf to the Mediterranean, and then to Europe.

Whoever rules Egypt has a stranglehold on the global economy. The Egyptians have closed the Suez Canal before, most notably in an eight-year blockade after the Six Day War with Israel. They can hold international commerce hostage whenever they want.

And an Islamist party with a long history of violence and hatred toward non-Muslims will soon be controlling it.

That's the first of the three crises we're discussing in this issue. Now let's talk about the second.

To the east of Egypt is its neighbor Israel. The Israelis are not only (rightfully) dismayed at the Egyptian elections, they're also preparing for...

A Nuclear Attack from Iran

Despite international efforts to slow them down, the Iranian ayatollahs will soon finish their uranium-enrichment program. Soon, they will have enough uranium to build nuclear weapons.

Many Western analysts believe that by the end of this year, it will be too late to stop them.

There have been several rounds of international negotiations with the Iranians. Unsurprisingly, they've gone nowhere. As Israeli

Defense Minister Ehud Barak explained in a recent interview, the Israelis are "too realistic" to expect that negotiations will convince the ayatollahs to give up their nuclear program:

"[T]his is now the third meeting... By the third meeting in a negotiation, you know whether the other party intends to reach an agreement or, alternatively, whether he is

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trying to play for time to avoid a decision. It seems to me that the Iranians keep defying and deceiving the whole world. But it's up to the participants in the negotiations to reach this conclusion. **We cannot afford to spend another three rounds of this nature just to allow the Iranians to keep maneuvering.**"

He emphasized that the West must act soon. "It cannot be a matter of years" before something is done, because it will be too late:

"They are trying to reach a certain kind of physical immunity against surgical attacks by burying [facilities] deep into the ground, spreading the sites over different parts of the country, producing more and more centrifuges, and accumulating more low-enriched uranium. So they are trying to reach a certain redundancy, or what I call the 'zone of immunity.'... a situation where, through redundancies, neither Israel and probably not even America can do anything surgically to block it. Once [Grand

Iran: Not Just a Problem for Israel

Some Westerners would like to avoid involvement in Iran. Yes, Iranian nukes would be disastrous for Israel, but that's Israel's problem, not ours.

Not true! As Israeli Defense Minister Barak has pointed out:

"Iran is not just a challenge for Israel—it remains a major challenge for whoever is willing to look reality in the eyes. Iran is a radical Muslim theocracy that is trying to reach nuclear military power. It also tries to hegemonize the whole [Persian] Gulf. Talk to the leaders of the Gulf. They are terrified by the possibility that Iran will turn nuclear. A nuclear Iran will be the end of the nonproliferation regime: Saudi Arabia will turn nuclear immediately, Turkey within several years, and probably the new Egypt will start moving to do it."

Remember also that Iran is a known sponsor of international terrorism. Do we want weapons-grade nuclear material—or even the weapons themselves—getting into the hands of terrorists?

Ayatollah Ali Khamenei reaches this kind of situation, he can be practically assured that he [has] crossed the point of no return..."

When asked if Israel could launch a successful military strike against Iran, he said:

"You can't expect me to answer directly. We [the United States and Israel] are... all determined to prevent Iran from turning into a nuclear military power, and we both say that **all options are on the table.**" Translation: a strike is a viable solution.

Obviously, if Iran were allowed to go nuclear, the potential consequences for Israel would be disastrous.

The Israelis expect that as a minimum, once the Iranians have enough enriched uranium, they'll send terrorists into Israelis cities to set off "dirty bombs": conventional explosives that spread toxic radioactive material over large areas.

Even worse, Iran's political leaders might do what they have already said they would do...

Iran's nutjob President Mahmoud Ahmadinejad has promised to "wipe Israel off the map."

Allowing Iran's lunatic leadership to have nuclear weapons would be catastrophic.

Time is running out. Soon, the Iranian program will achieve its 'zone of immunity'.

Thus, many analysts expect Israel to attack Iran's nuclear facilities within the next few months.

And they probably won't act alone. There are increasing hints that...

The United States Is Preparing to Attack Iran

Reports are coming from multiple sources about US military preparations to support Israel in an Iranian strike.

Combined forces, including units from the US Navy, Air Force, ground, and special forces units, have reportedly been participating in special exercises ordered by President Obama.

“Nutjob”?

If words like “nutjob” and “lunatic” seem too harsh to apply to Ahmadinejad, remember that Iran’s leadership has, among other things, said that the famous Tom & Jerry cartoons are a Jewish conspiracy to eliminate anti-Semitism in Europe.

The Nazi regime used to refer to Jews as “dirty mice.” Therefore, the Iranians claim that the Jews created the Tom & Jerry cartoons to show that mice can be cute, clever, and “not dirty.”

These are the people who are about to have nukes?

American forces are practicing not only for the strike itself, but also are preparing for potential Iranian counterstrikes afterward.

According to some reports, the preparations also include transferring a number of stealth F-22 fighters from their base in Alaska over to the Middle East. These are the most advanced planes in the US inventory.

They would be joining F-15 fighters, recently transferred from Massachusetts, along with multiple squadrons of US Navy F-18 fighter-bombers from three different aircraft carriers. (The *USS Abraham Lincoln* and *Enterprise* are already in the Persian Gulf. A third carrier would join them before the offensive.)

The initial American air mission would be to destroy Iranian air defenses. These are formidable, including not only an air force but also batteries of anti-aircraft missiles and other weapons. Thus, stealth planes are required.

Once these defenses are reduced, US and Israeli bombers would destroy the nuclear facilities.

This plan is very revealing. The F-22 is fairly new, and is still untested in combat. It is also controversial—there have been multiple incidents of pilots blacking out mid-flight due to problems with the plane’s oxygen system. At least one pilot has crashed and died from this.

The F-22’s safety problems have not yet been solved. The Air Force wouldn’t use them in combat unless no other plane could do the job. This tells us how tough the Iranian air defenses must be.

And even if these defenses are sufficiently reduced, the mission still might not succeed. Iran’s nuclear facilities are buried deep underground, and there is considerable doubt about whether bunker-buster bombs can penetrate deep enough to destroy them.

Moreover, these facilities are not the only objectives. Along with crippling Iran’s nuclear program, US/Israeli forces would also need to destroy the Iranian military units that could be used to counterattack US shipping in the Persian Gulf or civilian population centers in Israel. These include Iran’s army, part of its navy, its rocket forces, and its Revolutionary Guard corps scattered throughout the country.

This is a long list of targets.

An attack on Iran would be challenging and extremely complex, with no guarantee of success. A failed mission would leave Iran enraged, paranoid, and still on its way to having nukes soon—a disastrous outcome.

Plus, even if the mission were successful, there’s still potential for tremendous blowback (unforeseen consequences) throughout the Middle East.

This is the second of the three major crises in the Middle East. For the third, let’s shift our focus again, over to...

The Ongoing Massacres in Syria

Horrifying photos and videos are streaming out of Syria, as government forces continue to butcher civilians.

One of the latest videos shows the results of an attack that left over 100 dead. It included images that CNN described it as a “room crammed with the mangled and bloody bodies of children—some with their skulls torn open.”

International condemnation is raining down on Syrian President Bashar Al-Assad. United Nations special envoy Kofi Annan has even gone to Damascus to scold Assad in person.

But these scoldings are just empty words. And Assad knows it.

Even while some nations criticize Assad for the ongoing mass murders, other nations are increasing their support.

Supporting Syria: Iran, Russia, and now China

An Iranian news agency recently announced that joint military exercises are about to begin in Syria. Russia, Iran, and China are participating. The report described the maneuvers as “the biggest of its kind ever staged in the Middle East,” involving 90,000 personnel, 400 planes, and 900 tanks.

The Russians already had a military presence in Syria, at their naval base at Tartus. Now it appears that they’re building up their forces. In addition to the units participating in exercises, US officials are currently tracking at least one military cargo ship moving from the Black Sea to Tartus, carrying weapons, ammunition, and Russian Marines.

As for the Chinese, their involvement in Syria is new. This is an extremely important and disturbing development.

On the surface, this is an effort to deter US

Portfolio Update

In Update #1337, we increased our market hedge on the S&P ETF (symbol SPY). We added one contract of the July \$136 puts (symbol SPY120721136).

In Update #1338, we recommended taking profits from our short put on Occidental Petroleum (OXY). We bought to close the June \$85 put (symbol OXY120616P85).

In Update #1341, we issued instructions for subscribers who hedged Anadarko Petroleum (APC). We rolled up the June \$70 puts (APC120616P70) to the Aug. \$70 puts (APC120818P70).

In Update #1342, we issued instructions for subscribers who hedged Bill Barrett Corp. (BBG). We rolled up the June \$30 puts (BBG120616P30) to the Sep. \$30 puts (BBG120922P30).

In Update #1344, we allowed our short puts on Total SA (TOT) and Stone Energy (SGY) to be assigned. In Update #1345, we sold the Nov. \$45 calls (TOT121117C45) on TOT and the Aug. \$27 calls (SGY120818C27) on SGY.

military intervention in Syria. A large-scale presence of Russian and Chinese military forces will obviously make President Obama think twice about attacking.

But the long-term implications are even more ominous. The Middle East is hardening into a two-bloc system of alliances: the American-European-Arab-Turkish bloc and the Russian-Chinese-Iranian-Syrian bloc.

Two-bloc systems can be very unstable. Even minor incidents can cascade into full-scale war between the two alliances. The classic example here is World War I, triggered by a single bullet fired in Sarajevo.

Such an incident might have already occurred.

Syria Shoots Down Turkish Military Plane

Last week, Syria shot down a Super Phantom F-4 jet from the Turkish Air Force.

Syrian authorities claimed that the F-4 was flying low into its airspace, as if attacking. This is false. As reported in the *New York Times*, Turkish Foreign Minister Ahmet Davutoglu confirmed that “Our plane was hit in international airspace, 13 nautical miles out of Syria, when Syrian territorial space is 12 miles.”

The Turks have been flying patrols in the Mediterranean, observing from afar the Russian military buildup in Syria. The Syrians apparently decided to stop them.

The Syrians used a Russian-made, self-propelled medium range anti-aircraft missile known as the Pantsyr-1. This is important because these sophisticated weapons only arrived in Syria a few weeks ago. There hasn’t been time for the Russians to train the Syrians on how to use these weapons.

The implication is that the Russians themselves fired on the Turks.

This is treading on very dangerous ground. Turkey is a member of NATO. Under Article Five of the NATO pact, member states are obligated to consider an attack against one state to be an attack against all states.

Turkey has not yet invoked Article Five. But rumors are swirling that they’ve asked for US backing in a broad assault on Syria—back-

ing which has been refused (so far).

The Turks might press the issue by invoking their rights under the NATO treaty. If so, we might see all of NATO (including the US) being sucked into an open war against Syria and her allies.

Another possible outcome is that NATO might refuse the Turkish request. They could do this under the excuse that the Turkish plane had strayed into Syrian airspace before leaving again (which Turkey disputes).

If this happens, it would defer immediate NATO involvement in Syria. But it would infuriate the Turks, and it's likely they would leave NATO completely. (They already have other grievances against Europe that have been simmering for a while.)

Worse than this, it would cripple the moderate voices within Ankara. Turkey is an Islamic state, but the moderates are (so far) in charge. This could change quickly.

The moderates have been severely weakened recently by perceived disrespect from Europe over trade and economic issues, along with the continual tension with Greece over the island of Cyprus.

A large slap in the face from NATO could push the Turkish government completely into the hands of the radical faction. What we do not need is the world's 15th-largest economy, and a dominant military presence in the Middle East, being taken over by radical Islamists.

And even if the Turks don't push the issue, the US could still get pulled into a Syrian war in multiple ways. One of them is Syria's...

Preparations for Chemical Warfare

If current trends continue, chemical warfare is imminent in the Middle East.

On June 10, Iran accused anti-government forces ("terrorists") in Syria of arming themselves with chemical weapons from Libya.

There's little chance of this being true. The dissidents in Syria are guerrillas, with little money to obtain and store weapons like these. (Their primary armaments are rifles and rocket-propelled grenades.) Nor do they have the

expertise to wield such sophisticated devices.

More importantly, they certainly *don't* want to begin a chemical war with the Syrian government.

Syria is one of only seven nations which did not sign the Chemical Weapons Convention of 1993. Bashar al-Assad owns one of the world's largest stockpiles of chemical weapons. The arsenal includes horrors such as Sarin (a nerve agent 500 times more toxic than cyanide), VX (banned completely by the Convention as the most lethal nerve agent ever created—a mere 10 milligrams is deadly), and mustard gas (which kills its victims by agonizing chemical burns on the skin and inside the lungs).

Even if the Syrian dissidents did have chemical weapons (which they don't), they still wouldn't use them.

Why then did Iran make this claim?

The telling revelation was this sentence:

"Any report released on the Syrian Army's alleged use of the chemical weapons is meant to pave the ground for the terrorists to use these weapons against the people and accuse the Syrian army and government of that crime."

Translation: Assad is about to unleash his vast arsenal of chemical weapons on his own population, and he's going to blame the dissidents.

Chemical warfare would be the ultimate game-changer in Syria. If chemical weapons are unleashed against civilians, President Obama couldn't possibly continue his current policy of non-interference.

At that point, the United States would get sucked into a sectarian conflict in the Middle East where Russian and possibly Chinese troops are already deployed on the other side.

Pulling The Neighbors Into the Maelstrom

Although Russia, Iran, and (increasingly) China are directly involved in Syria, its closest neighbors have kept out of the conflict so far.

This might change quickly.

Even before its plane was shot down, Turkey had a grudge against Syria. The Syrian government used to support violent Kurdish anti-government guerrillas operating in Tur-

key, and the Turks haven't forgotten this.

In retaliation, the Turks had been supporting the Syrian dissidents. Now that its warplane has been shot down, Turkey has an excuse for more direct action.

Meanwhile, Iran has threatened to attack Israel if anybody in the Western bloc attacks Syria. Brigadier General Massoud Jazaeri was quoted as saying that Assad's allies "would ensure that aggressors do not survive the conflict. The Zionist regime and the interests of the enemies of Syria are all within range of resistance fire."

Therefore, if Turkey moves into Syria, Israel might get pulled in too. And that has implications for the United States as Israel's ally.

Some analysts also believe that Israel might attack Syria unilaterally anyway. If Assad's government falls, the Israelis do not want its vast arsenal of chemical weapons to fall into the hands of radical Islamists. Therefore, they might try to preemptively destroy these weapons caches.

There are multiple ways that the US could get pulled into this growing conflict. Small wonder then that...

The Pentagon Is Finalizing Plans for a Syrian Intervention

The US military brass correctly understands that if we're going to be pulled into a fight, we need to have prepared for it ahead of time.

Some officials are taking it one step further. Their belief is this: Instead of being pulled in by others, it's better to go in first, on purpose, deliberately and decisively.

It's unsurprising then that Washington is getting ready to intervene in Syria. CNN recently reported that the "initial planning is complete" for a military action.

CNN was told of multiple scenarios, from the US enforcing a no-fly zone to much more complicated interventions. None of them would be easy: "Officials say all the scenarios would be difficult to enact and involve large numbers of U.S. troops and extended operations."

Top military officials are worried about the chaos that is threatened by the escalating con-

flict. Several officials said that Syria threatens to be worse than Iraq.

In other reports, the US Navy has at least four ships in the Eastern Mediterranean (one submarine and three surface warships) monitoring the Syrians and presumably, the Russian navy base at Tartus. There are also US special forces operating in Jordan, preparing for a possible ground intervention with Jordanian troops to secure Syria's chemical weapon sites.

We can hope that Washington's plans will include the avoidance of a conflict with Russia or China. But how could we attack a nation without somehow involving its military allies?

That's a very difficult knot to untie.

Conclusion

You might have heard of the ancient curse, "May you live in interesting times."

Rarely have times been so "interesting" as now. Not only is there global economic uncertainty, but potential geopolitical chaos as well.

We can hope that everything discussed in this issue resolves itself peacefully. But we must do more than hope for the best. We must also prepare for the worst.

At the risk of sounding crass, I believe that we as investors are obligated to plan our strategy for a Middle East conflict. We can't do anything to prevent war in the Middle East. But we can (and must) protect ourselves and our loved ones from potential fallout.

If things come to a head in the Middle East, we could see massive moves in the oil market. A war in the Middle East could blow prices back up to \$150 or beyond.

At the same time, we must also consider the potential fallout of the financial crisis in Europe. If Europe has a banking meltdown, oil prices could fall like a stone.

So prices could explode upward, or implode downward, in a very short period of time. There's no way to know in advance which scenario will occur. Maybe neither one will.

I have the *GEA* portfolio in a very cautious outlook. Once we see a big market move coming, we'll take advantage of it.

For the moment, we need to wait and see!