# GOLD & ENERGY ADVISOR

Vol. IX, No. 10 $19 October 2012

# "What You Must Do To Protect and Grow Your Wealth... Regardless of Who Wins the Election!"

**"The outcome of the Presidential election won't be known until next month. But there's one thing that's already clear: the next four years will pose unprecedented challenges to your wealth.**

**"Regardless of who wins, there are some market trends that are not in doubt. In this issue: a massive investment trend to prepare for!"**

*James DiGeorgia, Editor*

As next month's US Presidential election approaches, many Americans are distracted by the political sideshow.

Who won the most debates? Who committed the fewest blunders? Who managed to appeal to the most independent voters? On and on it goes.

Most of these questions are irrelevant to us personally. (And historical analysis shows that Presidential elections are mostly determined by the state of the economy anyway.)

Meanwhile, there are growing financial trends that <u>will</u> affect you personally—trends that could potentially devastate your wealth.

Or, if you prepare correctly, they can give you a massive <u>growth</u> of your wealth. That's we must pay careful attention to this.

It's all a result of...

## The Federal Reserve's Massive New Economic Intervention

Last month, the Federal Reserve did something it has never done before.

It launched a massive new program of money-printing that is both <u>unlimited</u> and <u>unsterilized</u>. (More on what that means later). This program is named QE3: the third round of Quantitative Easing.

In the September issue, I showed how QE3 will inflate the prices of many resources. But it will rock the markets in other ways too, which I didn't have room to discuss last month.

So let's dig deeper into QE3. One of the first things we'll discover is that...

## Fed Chairman Ben Bernanke is Lying

QE3 is the most dramatic financial intervention in American history. Mr. Bernanke has given several reasons why it's necessary.

All of them are false.

For example, along with its $45 billion monthly operation in the Treasury market, the Fed is also printing $40 billion per month and using it to buy mortgage-backed securities. Mr.

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Bernanke says this will push mortgage rates down and help housing prices recover.

That's rubbish. Mortgage rates are already at historic lows: 3.4 percent for a 30-year fixed loan. Rates can hardly go down any further.

And even at today's historically low rates, the housing market is still barely improving after 5 years in decline. Pushing rates down another quarter-point or so will change nothing.

Mr. Bernanke also says that lots of new jobs will be created. But he's not being forthright here either.

Remember, this is the same man who also recently said, "I want to be clear... We don't have tools that are strong enough to solve the unemployment problem."

Also, by launching a third QE program, Bernanke implies that the first two did something that was worth continuing. But QE1 and QE2 did little to spur economic growth.

These programs created a lot of new money, but little of it went into the broader economy. Instead, it mostly went to two specific places.

The first place is the banking system. And banks are still sitting on most of the money they received. Thanks to QE1 and QE2, US bank reserves have ballooned to a staggering level—about $1.6 trillion. This money is doing nothing for the economy. All it's doing is shoring up the banks' balance sheets.

As for the second place the money went, we'll discuss that in a moment. First, let's review...

## The Fed's History of Creating Bubbles

In recent times, the Fed has created two devastating boom-and-bust cycles: tech stocks in the 1990s, and housing in the 2000s. Both times, the Fed fueled the bubbles by keeping monetary policy far too accommodative for far too long.

In fact, top Fed officials even encouraged traders to participate in the manias.

During the first bubble, Fed Chairman Alan Greenspan was a cheerleader for what he said were "miracles" in productivity from technology companies. And even as a very obvious (and eventually devastating) bubble was forming in tech stocks, he famously said that he couldn't recognize a bubble until it popped.

Worse, his continuous propping up of the stock market encouraged massive risk-taking. Everybody understood that "Easy Al" would always bail out the market if it got into trouble. This was so reliable that it even got a name: the "Greenspan Put."

After Easy Al retired, "Helicopter Ben" took over. He encouraged market bubbles merely by


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***Finest Known, LLC***

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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.



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becoming Fed Chairman. At the time he was appointed, he was already famous for declaring that every deflationary crisis can be solved easily by printing massive amounts of money. (His tacit endorsement of Milton Friedman's famous "helicopter drop"—dumping tons of money onto consumers—earned him his nickname.)

Appointing such a man as the most powerful financial official in America had an obvious effect on the market's appetite for risk.

In fairness to Bernanke, he didn't start the housing bubble. But he did fan its flames, even before becoming Fed Chairman.

While still a member of the Fed's Board of Governors, Bernanke was asked by CNBC if the housing market was in a bubble, and if we had to worry about it bursting. He said no—the housing market was not in a bubble.

Why not? Because bubbles burst, but the housing market would never do this. Bernanke couldn't even conceive of this market falling. He said, "We've never had a decline in house prices on a nationwide basis."

At worst, he expected that the growth in housing prices would slow down. But then he reassured the audience by saying:

"I don't think it's gonna drive the economy too far from its full employment path."

Four years after he made these comments, the official unemployment rate hit 9.5 percent. (The unofficial rate, which is more accurate than the manipulated government figures, was more than twice as high. Currently it's at 22.8 percent.)

As for the housing market itself, the Case-Shiller index of national home prices has lost more than one-third from its peak.

Bernanke's predictions have to be among the worst forecasts ever made by a Fed official. Or any official, for that matter.

Bernanke and other Fed officials have proven to be very bad at making succesful predictions. But they've been very good at creating...

## Market Manias

Earlier I said the money from QE1 and QE2 went mostly into two places. The first one was the US banking system.

The second one was US financial markets. QE1 and QE2 lit booster rockets underneath stock and resource prices.

In the table below are the effects of the Fed's recent monetary programs on the Dow Jones Industrial Average.

The Fed's financial interventions have done little to help the ailing US economy. But they've made astronomical profits for stock speculators.

The total stock gains in the table add up to over 8,000 points. Of course, the Dow isn't 8,000

| From | To | Effect on Dow |
|---|---|---|
| **QE1's** expansion to include $1.25 trillion of mortgage-backed securities, $200 billion of GSE debt, and $300 billion in Treasuries (March 18, 2009) | QE1's completion on March 31, 2010 | Up by 3,512 points |
| Ben Bernanke starts talking about **QE2 (**August 27, 2010) | QE2's completion on June 30, 2011 | Up by 2,280 points |
| **Operation Twist**'s beginning (October 3, 2011) | June 20, 2012 (Its scheduled end date) | Up by 1,925 points |
| **Operation Twist's** extension (June 20, 2012) | (Still ongoing) | Up by 636 points |
| **QE3's** announcement (September 13, 2011) | (Still ongoing) | Dow driven up 300 points in just one day |

points higher today than it was in early 2009.

That's because after each program ended, the market lost much of its gains.

This tells us that the market wasn't rising because stocks were getting more valuable. Although earnings have improved, the market blasted up mostly because the Fed was flooding it with money. This creates wild distortions in the market.

These were unintended consequences of QE1 and QE2. But now in QE3...

## Bernanke Will Do It On Purpose

In a recent speech, Bernanke said he wants "more-accommodative financial conditions." He then explained:

"We're going to be providing accommodation according to how the economy evolves… [T]hese policies can bring interest rates down—not just Treasury rates, but a whole range of rates… **It also affects stock prices. It affects other asset prices**.

"The tools we have involve affecting financial asset prices… Stock prices—many people own stocks directly or indirectly. The issue here is whether or not improving asset prices generally will make people more willing to spend."

Ben is saying he'll "provide accommodation"—print money—as long as necessary, to "improve asset prices." He's going to pump steroids into the stock market.

Will this help the average American? No.

But the speculators are rubbing their hands together and salivating.

## As Donald Trump said on CNBC, "People like me will benefit from this."

Others are less happy about what QE3 will do to America.

Peter Schiff, the CEO of Euro Pacific Capital has warned: "This is a disastrous monetary policy; it's kamikaze monetary policy."

Famed investor Marc Faber predicts that stocks will go ballistic, but for the wrong reasons. Ultimately, this will damage the already-wounded US economy. He said, "Eventually we will have a systemic crisis and everything will collapse. But the question is really between here and then. Will everything collapse with Dow Jones 20,000 or 50,000 or 10 million? Mr. Bernanke is a money printer... if Mr. Romney wins the election the next Fed chairman will also be a money printer. And so it will go on."

Joshua Shapiro, chief economist at MFR Inc., was quoted in the *Wall Street Journal*: "Our view remains that all this is basically a market/political sideshow and that the Fed has run out of tools that could have a meaningful impact on economic activity. All it is doing now is further distorting markets and complicating its eventual exit strategy. All in all, a big mess, which together with dysfunctional fiscal policy makes for a quite depressing situation."

Depressing? Yes, if you're caught up in the mess with everyone else. But you don't have to be. We can't prevent what's coming, but we can profit from it—and we certainly plan to. I'll explain how in a moment.

First, let's ask the question...

## How Long Will QE3 Continue?

As I said earlier, QE3 is unlimited. Unlike previous rounds of QE, this one could, in theory, go on forever.

Previous rounds of QE included prescheduled ending dates. QE3 does not. When announcing the new program, Bernanke merely said it would continue until the labor market "improves substantially."

In a post-announcement press conference, reporters pressed him for details. They wanted to know how much improvement would be required to be "substantial"?

Bernanke refused to say. He would only admit that, "There's not a specific number we have in mind."

In other words, the man known as "Helicopter Ben" will print money for as long as he feels like it.

And that will probably be much longer than most people expect. Bank of America recently released an analysis that forecast no "substantial" improvement in the labor market for the next 1.5 to 2 years. BoA analysts also "foresee the Fed buying Treasuries after the end of Operation Twist."

If they're right, this means that…

## We're In For At Least Two Years Of Constant Money-Printing…

…And the markets are probably going to swing wildly.

Think about this. After 3.5 years of Quantitative Easing, has the job market returned to normal? No.

Has the housing market returned to normal? No.

Has the economy returned to normal? No.

So what has happened?

## Stocks are up over 6,000 points!

Commodity prices have gone crazy too.

Yes, the government claims that inflation is low-to-nonexistent.

But that's not reality. In the real world, the Fed's money-printing is taking a serious toll on your wallet.

Consumer prices rose 0.6 percent in August and again in September. That's an annual inflation rate of 7.2 percent.

Producer prices were up even higher: 1.7 percent in August, and 1.1 in September.

Next time you fill up your gas tank, ask yourself if inflation is low.

With the Fed's monetary spigots wide-open, money is pouring into financial markets and resources. It's no surprise that prices are shooting up.

And there's another predictable effect from all this...

## The Battered, Bruised Dollar

Unlimited "accommodation," lasting for at least two years (and possibly much longer), has obvious implications for the dollar. Indeed, when QE3 was announced, the dollar fell—right on cue.

The long-term ramifications of this are ominous. A long-term program of Fed money-printing will suppress the dollar against other global currencies—at a time when other nations are desperately trying to push their own currencies down, to boost their exports.

Sure enough, as the Fed begins QE3, the Japanese Finance Minister is talking about intervening to curb the rising yen. China is also contemplating currency actions of its own.

Meanwhile, the Europeans are busy destroying the euro (although for different reasons).

This could ignite the competitive currency devaluations that I've warned about in the past.

Such devaluations, once begun, are extremely hard to stop. And they can wreak severe damage throughout the economies involved, which would include the United States.

They're also unpredictable in their effects. Financial markets can swing between boom and bust, and back again, in short periods of time.

And the scary part is...

## This Might Be Merely the Beginning

Just three weeks after QE3 was launched, Charles Evans (President of the Chicago Federal Reserve Bank) announced that the Fed should do far more than this.

In a speech, he said:

"We cannot be complacent and assume that the economy is not being damaged if no action is taken… If we continue to take only modest, cautious, safe policy actions, we risk suffering a lost decade similar to that which Japan experienced in the 1990s."

Wait a minute. The Fed is pumping $85 billion per month into the US economy—and this is "modest" and "cautious"?

According to Evans, the answer is yes. He's proposing to extend the Fed's $85 billion monthly program even further than originally planned. Maybe even through the end of 2014.

This is insane.

Let's look at the numbers. Of the $85 billion in monthly asset purchases, $45 billion comes from "Operation Twist." Here the Fed is selling short-term Treasuries and buying long-term

Treasuries with the money.

If this continues long-term, this is a very destructive policy. But let's set that aside for now.

The remaining $40 billion is being created out of thin air by Helicopter Ben's magic money-creation machine.

Extend this through the end of 2013—not even 2014 like Evans hinted at, just 2013—and that's $600 billion being printed and injected into the economy.

## That's over $5,200 for every household in the United States.

And QE3 is dangerous in a way that previous rounds weren't.

QE1 and QE2 were "sterilized." Money was flooded into the banking system, but it was kept bottled up in financial assets. The money wasn't allowed to escape into the broader economy, because these tsunamis of cash could have ignited massive inflation.

And even with this sterilization, we saw earlier how the torrents of new money caused financial markets to leap upward.

Now a third round of QE is upon us. Unlike previous rounds of QE, the new round is not only unlimited, it's also unsterilized.

Let me repeat—the Fed is going to print $5,200 for every household in the US. They're going to set it all loose, and let it roar through the economy.

Setting aside the beating that your wallet is about to take (thanks to skyrocketing resource prices), here's the other big thing to expect…

## The Markets Will Go Berserk

We're going to see wild booms and busts in stocks and other markets.

Of course, the markets won't go straight up. Far from it. We'll see violent whipsaws and reversals.

We're entering uncharted territory here. Normal market forces don't apply anymore. And the market's reactions won't follow historical patterns.

Oceans of liquidity are going to pour into the economy. Money is going to flood into a lot of unexpected places.

I expect to see the market act like a manic-depressive. There will be times when the market leaps upward for days at a time, even though it has no reason to be so euphoric.

## Portfolio Update

In Update #1393, we opened a new position on Conocophillips (symbol COP). We sold short to open the COP Nov. $55 puts (symbol COP121117P55).

In Update #1395, we issued hedge instructions for subscribers who own Bill Barrett Corp. (BBG). We sold to open the Dec. $25 calls (BBG121222C25).

In Update #1396, we opened a new position on Apache Corp. (APA). We sold to open the Nov. $80 puts (APA121117P80).

In Update #1400, we rolled up our short put on Whiting Petro. (WLL). We bought to close the Oct. $47 puts (WLL121020P47), and sold short to open the Dec. $46 puts (WLL121222P46).

In Update #1401, we issued a new recommendation on Devon Energy (DVN). We sold to open the Jan. $57.50 puts (DVN130119P57.50).

In Update #1406, we issued instructions to take profits on Devon Energy (DVN). We bought to close our Jan. $57.50 puts (DVN130119P57.50). Our profit was $94 per contract.

In Update #1407, we issued instructions to take profits on our short puts on Apache Corp. (APA) and Conocophillips (COP). On APA, we bought to close the Nov. $80 puts (APA121117P80). Our profit was $116 per contract. On COP, we bought to close the Nov. $55 puts (COP121117P55). Our profit was $54 per contract.

In Update #1409, we noted that our profits and premiums collected in October were $389.

In Update #1411, we issued a new recommendation on Occidental Petroleum (OXY). We sold to open the Dec. $77.50 puts (OXY121222P77.50).

In Update #1412, we issued a new recommendation on Conocophillips (COP). We sold to open the Dec. $52.50 puts (COP121222P52.50).

In Update #1413, we issued a new recommendation on British Petroleum (BP). We sold to open the Jan. $39 puts (BP130119P39).

We'll also see periods when the slightest hint of bad news brings it crashing back down. After all, the market's primary fuel will be easy money from the Fed. Corporate earnings won't keep up, and the periodic earnings reports will torpedo the market valuations.

So overall, we'll probably see manic swings.

An environment like this makes investing and trading a lot more challenging. It also makes it potentially a lot more lucrative.

Here in *Gold & Energy Advisor*, we've historically been focused on riding the mega-trends of rising oil and bullish gold. Those trends are still in place.

For that matter, the Federal Reserve's plan to print more than half a trillion dollars in just 15 months, and inject it unsterilized into the economy, means that gold and the right oil stocks should continue to be spectacular investments.

Now we should discuss…

## Practical Ways You Can Profit

We're still at the very beginning of the Fed's $600 billion money-printing bonanza. So we can ride this thing the entire way.

I'm expecting massive price inflation in certain sectors. Although nothing is ever certain about the future, there are few bets better than this: that oil is going up.

As always, my team and I are going to select the best opportunities in energy and recommend them to you.

Prices of other necessities will also be pressured upward. As I've mentioned a few times recently, I'm broadening our focus in *GEA* to include the best opportunities here as well.

Now let's talk about something that I haven't discussed before in *GEA*.

## In Today's Market Environment, One of the Most Profitable Things You Can Do is "Swing Trading."

"Swing trading" means, as the name says, to trade the swings in the market. You wait until the market has a large reversal in direction. When it does, you make your move.

Historically, markets tend to swing between two extremes: fear and greed.

When fear is the dominant emotion, there are waves of selling. Prices are driven down.

When greed is the dominant emotion, there are waves of buying at higher and higher prices. Prices are driven up.

Either way, you can make money. Done correctly, swing trading can make large profits regardless of which direction the market is moving.

And over the next couple of years, the Fed should be creating massive market swings.

## How to Recognize Profitable Swings

It helps to think of the market as a giant rubber band.

Take a rubber band and stretch it out. The more you stretch it, the more tension is built up. Keep stretching, and eventually it will snap and lash back at you.

In the markets, stocks and other assets work the same way. When greed reigns, more and more buyers pile into the stock. It grows more and more overbought, until finally the trend "snaps" and lashes back.

Then the stock falls. Fear drives the price down and down, until it gets oversold. Then it snaps again, and the lashback kicks it back into an uptrend. Back and forth it goes, in an endless cycle.

Also, the more oversold or overbought a stock becomes, the wilder the coming lashback will be—and the more potential profit you can make.

Of course, no stock ever moves in a straight line. And most of the time, a particular stock will be neither strongly overbought nor oversold. During those periods, traders are valuing the stock at somewhere close to its norm.

But sometimes emotions get strong enough to overcome this. The stock will be driven to extremes. And that's when you want to move in.

The more extreme a stock gets, the more probable that it will lash back very soon. That means you can predict the future price movement of that stock.

## And that means you can make a lot of money.

This approach does require some patience. As I said, most of the time, most stocks aren't at extremes either way.

But there always some stocks in the market that are doing this to varying degrees. One of the keys to success with this approach is to realize that there are truly more opportunities than any one trader could take advantage of. Therefore, you should cherry-pick only the best ones.

My personal preference is to wait for trades with an 80 percent probability of making 60-80 percent in one month or less. Over the last five years, I've found about three of these per month. (To be precise, there have been 202 in the last 63 months. That's an average of 3.2 per month.)

I'll explain how I'm finding them in just a moment. First, let me finish discussing why I love this approach so much.

First, by trading only at the swings, you're only in your trades for a short time. This means you're less exposed to the market potentially moving against you. Over the last five years of doing this, my average trade is only 23.7 days long.

Second, you can quantify how far a stock has been driven from its norm. You can boil the whole thing down to a set of numbers. This removes all emotion from your trading. There's no more fear and greed distorting your decisions—you just look at the numbers. If they meet your criteria, you trade. If not, you don't. Simple.

Third, swing trading also allows you to choose the amount of risk you're willing to take. By only taking trades where the stocks are at high extremes, you have an extremely high probability of winning. Few trading approaches can give you a comparable win rate like swing trading can. In fact, I'll disclose all the results this method has produced since I started using it in August 2007:

- Over these 63 months, there have been 202 total trades: 161 winners, 40 losers, and 1 break-even.
- That's a win rate of 79.7 percent.
- As I already mentioned, swing trading allows you to select only the absolute best opportunites. I'm averaging less than 4 trading signals per month, with an average stay in the position of less than 24 days.
- Total gains since starting this method only five years ago: 4,561.42 percent.
- Average gain per trading signal: 22.58 percent.
- Average monthly gain: 72.4 percent. (That's not a typo.)
- Average annual gain: 868.8 percent.
- Average cash flow, based on trading 10 option contracts per signal: $1,738.28 per month.
- Just in 2012, there have been 29 winners to only 6 losers. Cumulative returns this year alone are 683.19 percent.

## How You Can Get These Trading Signals Too

As you can see, swing trading is a more aggressive approach than our usual recommendations in *Gold & Energy Advisor*. It's meant to build wealth as rapidly as possible. Thus, it's out of the scope of our approach in *GEA*, which is a bit more conservative.

So I created a video that explains exactly how these trading signals are calculated and generated. You can watch it here:

http://www.goldandenergyoptions.com

Please note that I created this video a little while ago, so the numbers in it aren't quite current. Since then, there have been 10 additional trades (all of which were winners), for an additional cumulative gain of about 273 percent.

The rest of the information is still quite relevant. You'll see exactly how I generate the trading signals that have produced a cumulative gain of 4,561 percent—an average of 72.4 percent per month!—over the last five years.

This video won't be up for long, so I recommend you watch it soon. Why not do it now, while it's fresh on your mind? Just click on this link and you'll go straight to the video:

http://www.goldandenergyoptions.com