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## Questions You Want Answers To; First Edition

I was sent an email with ten questions this week. That is nothing new but the title of the email had me a bit confused as to why I was on the list of recipients. It was titled "Questions for all wise people". While far from wise I thought I'd delve into the questions publicly since they may answer many of your own questions.

**(1) Argument 1 :- All Western analysts and media are saying that Gold is going up because of financial meltdown and safe haven buying**

**My Question :- Then why is DJIA and S&P zooming for last 7 months along with Gold. All financial shares are going through the roof, with shares like Goldman Sachs moving much higher than Gold in % terms.**

Well I wouldn't say "all western analysts" are saying that but the simple answer that jumps into my mind without getting into the manipulation and propping up of the markets side of things is that the US dollar has fallen quite a

lot in that time meaning the gains are nominal.

As shown by this chart, since April, the US dollar index has fallen over 10% while gold the Dow and the S&P have gone up between 20% and 25%. So simply taking the dollar loss into consideration you've only made about 10%, half the perceived gain.



As an extreme but relevant example any nation who endured hyperinflation saw their stock markets move to near infinite levels during the crisis, but the unit of value, their currency, was worthless . That same scenario is unfolding and likely to continue in the US today. A rising stock market in itself tells you nothing. It must be valued or compared to something such as gold.

## (2) Argument 2:- Gold is going up because of Dollar weakness

**My Question :- So are all commodities like Silver, Crude, Copper, Agro – commodities. In fact most of them have gone up much higher than Gold since the beginning of this year. Silver had moved 52% compared to Gold 22%, Crude has moved 100% so has Copper. Then why is the media attracted only towards Gold**

That's true, gold is going up because of dollar weakness to a large degree, but also loss of confidence in the US dollar as well as all fiat currencies. Contrary to the gold perma-bears view that gold is only rising in the US dollar it's not. It is rising against ALL major currencies when you look at the big picture, not just the last couple months. With charts you can pretty well paint any type of picture you desire by adjusting time frames, moving averages lengths, weekly or daily etc. That's why on top of technical analysis I employ and rely upon fundamental analysis to first identify the big trends before trying to time things with technical analysis.

The second part of the question can be answered by looking at the comparison chart on the right. As most people know almost every, including those listed, commodity except gold crashed along with the markets. Gold pulled back some, but not much. Tell me another commodity other than gold that's at an all-time high. Even in 2008 gold ended the year with a positive return, one of the few investments to do so.

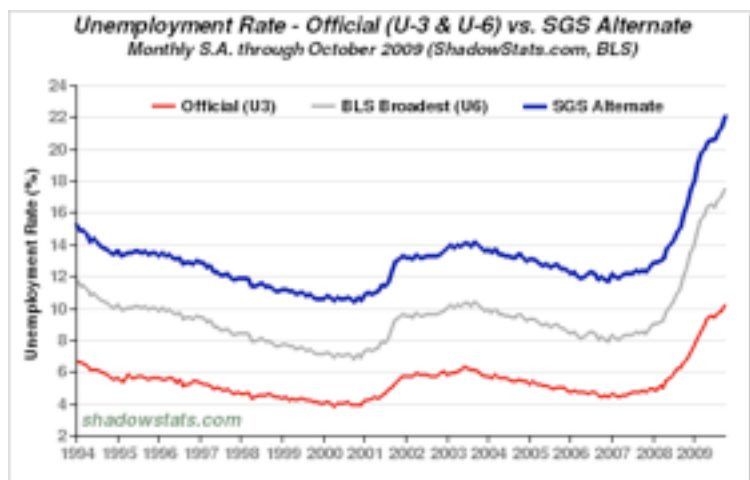


The media likes record high prices and gold is breaking them almost daily. Also gold is the most significant indicator of worldwide economic health, or individual countries health. I assure you if copper, or sugar or silver were at an all-time high it would also be talked about often, but that is not the case.

**(3) Arguments 3:- Gold is going up because of inflation and zero interest policy of Fed**

**My Question :** If there is inflation then why is Consumer Price index still in negative zone. Shouldn't they be high units or even teens like 1980s. Further if there is excess money supply then why is there is a contraction in consumer credit. If it is because of zero interest rate policy of Fed, then why did Gold go up from 2003 to 2007 when the Fed kept increasing the interest rate from 1% to 5.5%. Gold in the same period moved from 350 USD to 728 USD.

The consumer price index and all other government statistics are rigged and changed periodically to manage the perception of those numbers in order to understate them. This creates the mirage of false prosperity or these days, less bad. I suggest a service



run by John Williams called [Shadowstats](#) which calculates these measures using the formulas which state the figures as they were originally intended to be viewed and used. US unemployment is over 22% accordingly.

There is an excess of money supply but it is not being lent out. It is being used internally. The head of the FDIC [said only yesterday](#) that she is very worried that the nation's largest banks are not lending enough and warned the economy could take another turn for the worse without increased access to credit. CIT, the large lender to smaller businesses, going bankrupt last week didn't help either.

An interest rate of 5.5% is still quite low and the writing was on the wall when talking about the US dollar. It was and is an impending currency crisis and loss of faith that has driven gold higher over that time. As well as lack of physical supply with increasing demand.

There are many other "reasons" why gold has gone up such as cycles. [GATA](#) also correctly surmises that gold has been lent out by the major holders who are the central banks. The central banks lent their gold for a small interest fee since in a vault it was not making them any money, just providing security. Now the gold is gone into the market and as such, the supply gap which was once filled by leasing is gone or close to it.

Please consider this passage from Charles D. Ellis's book "The Partnership: The Making of Goldman Sachs".

*During their two years ownership, Herb Coyne and his group had built up the metals business and made three particularly clever moves. First, as an ever-curious intellectual who loved to figure things out, Coyne learned that the central banks of many nations kept their currency reserves in gold bars stored in the vaults of the Bank of England in London or the New York Federal Reserve Bank. Taken together, all this great wealth of nations had what Coyne saw as one fascinating characteristic: It earned zero return. It just sat in the vaults. But Coyne knew that the time value of money always figured into any futures contract and that the forward markets in commodities always reflected implicit interest rates, so he called on the central bankers in one country after another and made what appeared to be a generous and innovative offer: "Lend me your sterile bars of gold bullion and I'll pay you a fee of half of one percent every year!"*

*Coyne knew what the central bankers did not know: J.Aron could create a near-perfect hedge by selling short the borrowed gold and buying gold futures (which incorporated the high interest rates of those years) for an annualized profit as high as 8 percent on the matched book. That was 8 percent on a risk-free matched book that required almost no equity capital, so it produced a nearly infinite rate of return.*

And so it was, that long ago this practice of leasing gold began and continued until recently. Although the end is not proved as of yet I do believe the practice is all but extinct. Many of these central banks who have leased their gold may or are, now wanting it back but it cannot be given back since it has been sold in the market and is long gone. The transaction will be settled in paper, which is the exact instrument central banks are trying to avoid increasingly these days. That in a nutshell is [GATA's](#) premise.

I know how long articles can be tedious and because of that not thoroughly read, so I'll cut it short today. Next week I'll get into a few more of the questions. But first I'd like to give a quick kudos to Bill Murphy of GATA who runs [LeMetropole Cafe](#).

His daily Midas report is one I never miss. While it can be complicated at first glance, the amount of learning that takes place there is truly outstanding. I suggest a two week free trial at the minimum or he is offering a special perpetuity (or until hyperinflation sets in!) offer where you can lock in your subscription price forever. The offer expires this weekend after which time the price will be raised. I am nothing but a paid up subscriber of his and will reap no benefit from this, but you will so take the free trial at the least.

In my free, nearly weekly newsletter or articles I include many links and charts which cannot always be viewed through sites which publish my work. If you are having difficulties viewing them please sign up in the left margin for free at <http://www.preciousmetalstockreview.com/> or send an email to [warren@preciousmetalstockreview.com](mailto:warren@preciousmetalstockreview.com) with "subscribe" as the subject and receive the newsletter directly in your inbox, links and all. If you would like to subscribe and see what my portfolio consists of please see [here](#).

Until next week take care and thank you for reading.

Warren Bevan

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