

Eurobomb Ticking Down

By Scott Silva

Editor, The Gold Speculator

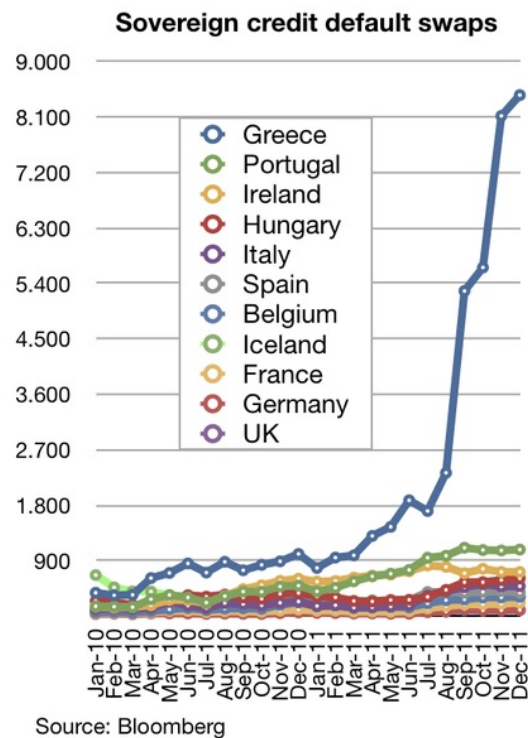
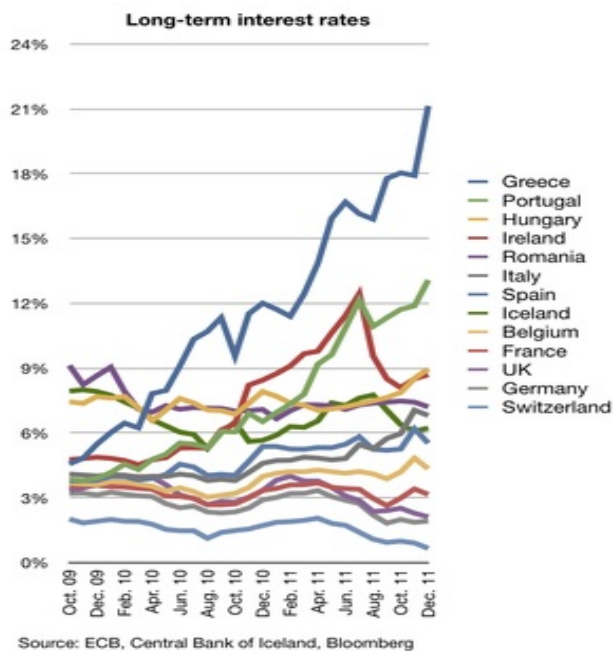
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When the ball dropped on New Year's Eve, 2011 ended not with a bang, but with a soft ticking sound. Despite the fireworks and the merriment of joyous revelers ringing in the new year, a hidden clock continues its countdown. Tick, tick, tick. At the fateful hour, the bomb, buried deep under the global financial infrastructure will detonate, bringing down economies one after another. If you listen, you can hear the tick, tick ticking right now.

It is the sound of European sovereign debt interest rates ticking up, the sure sign that the European debt crisis has not been contained by the new EU financial regime.

The forces of economic meltdown in the European welfare state simply overpower the last minute rescue measures by the ECB. Sooner or later Greece will default, then maybe Spain and Portugal. By then even Italy could succumb as its bonds also are rendered worthless as the bottom drops out of the debt market.

The bond market is showing several EMU countries are facing interest rates of 7% or more on their long term debt instruments, a level deemed unsustainable. The market is also signaling that the Greek default is imminent. The price of Credit Default Swaps on Greek sovereign notes is spiking.



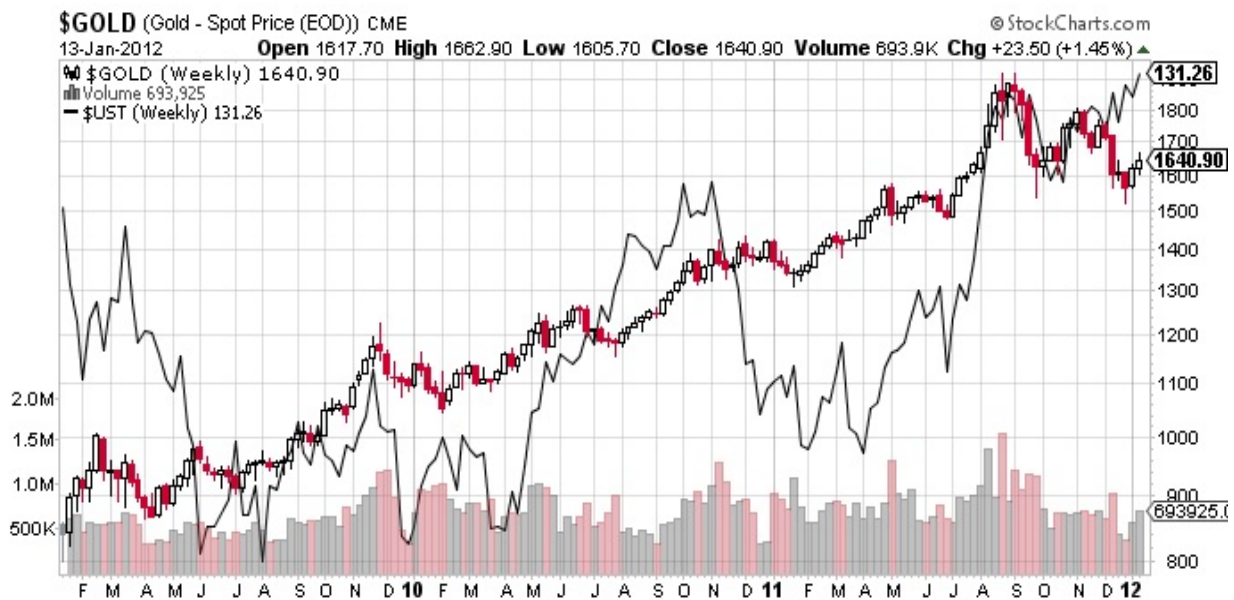
The rating agencies recognize the coming financial storm in the Eurozone. Friday, Standard and

Poor's downgraded the credit ratings of nine of the seventeen Eurozone nations, including France and Austria to AA+. Monday, S&P downgraded the AAA rated European Financial Stability Fund (EFSF) one notch, based on the downgraded status of its major guarantors.

The major destabilizing force in Europe is the belief that the public sector is font of prosperity. Indeed, the European welfare state supports more than half of its citizens directly. The problem is, today there are fewer and fewer workers to tax and the costs of government supplied services continue to rise, particularly healthcare and retirement costs. In Italy, for example, Italian women have on average 1.2 children, putting the country's birth rate at 207th out of 221 countries. And, 20% of Italy's 60 million citizens are 65 or older; they make expensive claims on state-paid pensions and other entitlements. It's a death spiral that cannot be solved by hiking tax rates or imposing strict austerity measures. In fact, these "cures" produce precisely the opposite effect by removing the incentives for productive economic growth. To make matters worse, the ECB debases the common currency with every bailout it hands out.

The question now is: "How do I protect my wealth against the coming economic storm?" Many investors are moving out of European assets and into US Treasuries in an effort to preserve their capital. Is this a wise move?

But the facts show that there is a better safe haven available to investors. We can see that gold has outperformed Treasuries over the last few years, even as many investors fly to Treasuries in periods of risk-off trading. As we can see, Treasury prices have been much more volatile than gold prices over the last several years. Treasury prices have bounced up and down while gold has marched steadily higher since 2009.



Today's market is characterized by negative real interest rates for Treasuries. That is, Fed monetary policy has kept near-zero interest rates for bank-bank borrowing, which has driven the yield curve down to the point where the 10-year coupon rate (nominal yield) is 2% or so. The real interest rate accounts for inflation, which is reported to be 2.5%, which pushes the real rate

into negative territory. The Fed policy distorts the market for money, which distorts the natural interest rate that reflects the demand for money. This type of distortion drives investors to other instruments in the search for yield.

The central bank also creates inflation by printing more and more paper money. More dollars chasing the same goods drives prices up. As we know from Uncle Milton, inflation is always and everywhere a monetary phenomenon.

But the Fed cannot print gold, so it is powerless to control its price directly, as it controls the value of paper money. Printing more fiat currency actually boosts the price of gold. Gold is a store of value. Paper money is not.

It should not surprise the prudent investor, then, that gold has outperformed dollar-denominated assets. Technical analysis of the gold charts now shows that gold is preparing for another major move. Will you be prepared to benefit from it?

Investors from around the world benefit from timely market analysis on gold and silver and portfolio recommendations contained in *The Gold Speculator* investment newsletter, which is based on the principles of free markets, private property, sound money and Austrian School economics.

The question for you to consider is how are you going to protect yourself from the vagaries of the fiat money and economic uncertainty? We publish *The Gold Speculator* to help people make better decisions about their money. Our Model Conservative Portfolio has outperformed the DJIA and the S&P 500 by more than 3:1 over the last several years. Subscribe at our web site www.thegoldspeculatorllc.com with credit card or PayPal (\$300/yr) or by sending your check for \$290 (\$10 cash discount) The Gold Speculator, 614 Nashua St. #142 Milford, NH 03055