

GOLD RISING

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Even if stability were to return to the Middle East and North Africa, gold will reach new highs over the next several months. There is no doubt that the popular uprisings in Egypt, Tunisia, and now Bahrain and Libya have threatened stability in the region. Oil prices have spiked to over \$100/bbl as Libyan refineries shut down, cutting off 1.6 million barrels a day to global supply. Libya is the world's 12th largest oil exporter. Iran, emboldened by the fall of the Mubarak, long time US ally and friend to Israel, today for the first time in thirty years is sending warships through the Suez, an act Israel's prime minister described as "a provocative, unprecedented Iranian military presence" in the Mediterranean. More than two million barrels of oil transit Suez each day through the canal and its adjacent pipeline, accounting for at least two percent of global oil output. The political upheaval in Egypt was a surprise to many on watch. Events moved quickly in Egypt; the regime toppled in weeks. Traders (and defense analysts) worry popular unrest will spread to other countries in the region, including the world's top oil producer, Saudi Arabia. Already, new clashes have erupted in Morocco, Jordan, Algeria and Yemen.

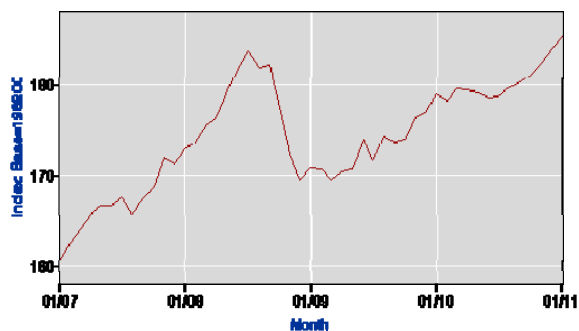
Gold prices have jumped since the first protesters took to the streets in Tunis and Cairo. Gold is a traditional safe haven for investors. Gold has gained 7 % since January 28, the day that the Egyptian government shut down internet service in an attempt to deny communication among protesters. Although the military has assumed control of the Egyptian government, it remains unclear what form the government will take after the scheduled September elections. Much could happen in the region to upset the status quo before then.

But there are other reasons gold prices will remain high. As you have read in these pages before, US government intervention in the financial markets is hastening a major currency meltdown. The primary causes are unchecked deficit spending and the Fed's easy money policies. The conviction to continue massive deficit spending is evident in the president's \$3.7 Trillion budget request for FY2012. Analysts project it will double the national debt to \$23 Trillion by 2021. Funding for much of the budget would come from continued government borrowing, that is, selling US Treasuries to the public and foreign investors. But borrowing at extreme levels (over 100% of GDP) may jeopardize the credit rating of US sovereign debt. Moody's Investors Service has already indicated



that it may be forced to downgrade its economic outlook for the US based on projected debt levels. Investors seeking to preserve their wealth flocked to gold when the president's budget was released.

Another factor driving the price of gold higher is new evidence on rising inflation. Commodity prices have been rising steadily since 2009. In fact, commodity prices as reflected in the CRB index have broken through the 2008 high, last week reaching a new high at 666. Higher commodity prices are now flowing into producer prices. The Producer Price Index (lower chart on right), has increased over 21% in the last two months, recovering from the lows of the 2009 meltdown and well over its 2008 high. Consumer prices are moving higher now as well, despite statements by Chairman Bernanke to the contrary, prices for almost every consumer item (except single family housing) are on the rise, some at double digit rates. For the past 3 months, the core inflation, as measured by the CPI, has moved up 3.9%. Food and energy prices have pushed up 3.1% and 27% over the same period. At the same time, the US Dollar has lost value against other currencies, reducing purchasing power. The US Dollar has lost 35% of its value in just the last ten years. Together, the combination of rising prices and a weaker dollar is a recipe for disaster.



Investing in the stock market is not the answer. Easy money has buoyed up stock prices in the last few weeks; the Dow closed over the 12,000 mark earlier this month for the first time since 2008. But stocks prices are likely to slide steeply when the Fed is forced to tighten in a belated attempt to slow inflation. Continued government intervention will cause the economy to slip into stagflation, that eerie economic nether land of slow growth, declining wages, high unemployment and double digit inflation reminiscent of the Carter years.

Prudent investors can fight the ravages of inflation and debasement of the currency by investing in gold and silver. Gold has maintained its value during periods of high inflation. For example, gold tripled in price during the early 1970's oil embargo, when oil prices suddenly spiked. In the late 1970's gold prices climbed as much as 526% in Carter's first three years in office as the president struggled with stagflation. Today, as the Fed continues to print money to support more federal deficit spending, we are seeing once again, the onset of massive inflation at all levels.

Investors from around the world benefit from timely market analysis and portfolio recommendations contained in *The Gold Speculator* investment newsletter, which is based on the principles of 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 continued deficit spending and growing inflation? We publish *The Gold Speculator* to help people make better decisions about their money. Our Model Conservative Portfolio gained 66.7% in 2010. Subscribe by visiting our web site, www.thegoldspeculatorllc.com and pressing the PayPal button (\$300/yr) or by sending your check for \$290 (\$10 cash discount) The Gold Speculator, 614 Nashua St. #142 Milford, NH 03055