THE SQUEEZE IS ON
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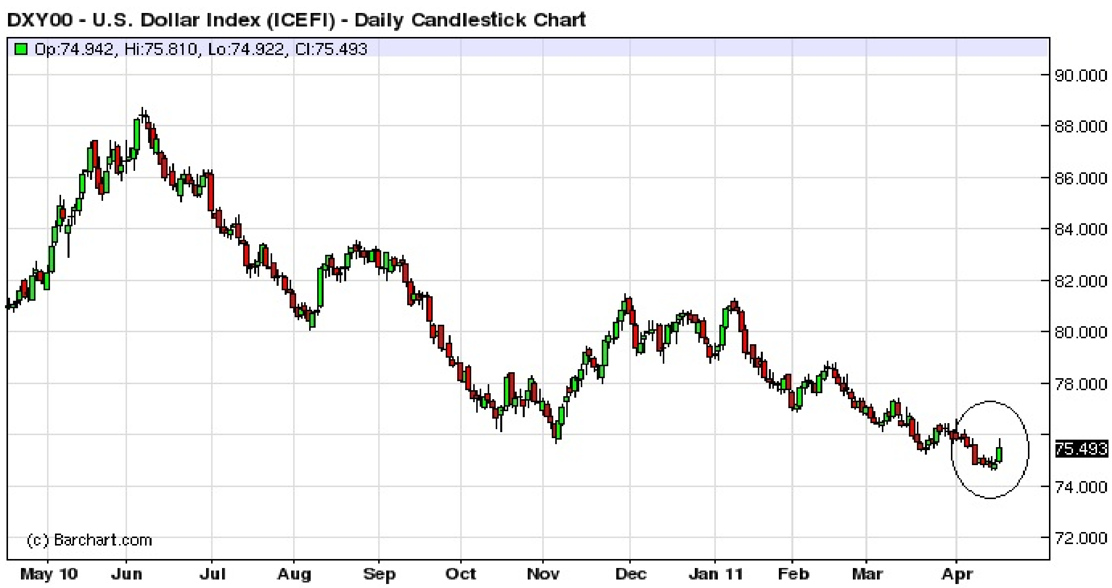
The squeeze in on. Yesterday's downgrading of the US economic outlook by Standard & Poor provided the catalyst for US Dollar shorts to cover, which drove up the Dollar index up, breaking its 15% decline over the last 10 months. S&P revised its outlook on the US AAA credit rating to negative from stable, citing the massive US debt and Washington's apparent inability to cope with it its fiscal problems; "we believe there is a material risk that U.S. policy makers might not reach an agreement on how to address medium- and long-term budgetary challenges by 2013." While the S&P maintained the country's top AAA credit rating, the rating agency called the odds at one in three that the U.S. credit rating could be downgraded within two years.

The US stock market responded with a broad sell-off; so did the FTSE in the closing hours. Actually, the Dow had opened 60 points lower on renewed EU worries over the imminent default in sovereign debt by Greece, but the S&P announcement on the wires soon after the NYSE open drove the Dow and the S&P 500 down. The US Dollar, on the other hand, traded up as short sellers scurried to cover.



Gold and silver, however, traded up to new highs as investors traded out of stocks and into safe-haven positions in the precious metals. Gold nearly hit the psychological $1500/oz benchmark reaching $1497.20 before closing at an all-time high of $1490/oz on Monday. COMEX May Silver closed at 43.275, a new 31-year high.

Did Monday's gains in gold and silver come by way of the short squeeze? Maybe so. Many believe that rise gold and silver over the last several years is the result of a "bubble" in the precious metals. Certainly, there are shorts in gold and silver. But the shorts are hurting today, to the benefit of the longs. (Full Disclosure: I have been long gold and silver and gold and silver stocks for years, now). The simple truth is there is no better safe haven for investors facing uncertain times than the precious metals. Despite the shorts, gold and silver have made dramatic gains over the last ten years, while the stock market has limped along. In the last decade, the S&P 500 index has gained 16%. In the same period, the price of gold has more than quintupled. And silver has outperformed gold over the last twelve months.

Gold has been considered the safe-haven asset since ancient times. Whether coined, exchanged and accumulated as money, or purchased as a hedge against debasement of fiat currencies, political crises or economic instabilities, the yellow metal has maintained its intrinsic value against all other commodities and asset classes.

Following WWII, US inflation was highest in 1946, 1974, 1975, 1979 and 1980. During those five years, the Dow stocks returned an average -12.33% in real terms; in those same years gold returned an average 130.4%.

History shows gold moves up with higher oil prices. In the ealy1970's, when oil prices climbed from $2.44 to $10.36/bbl, gold prices rose 268%. In the late 1970's, when oil jumped to $26/bbl, gold prices gained another 254% to $631/oz.

The current oil shock, caused by civil war in Libya, pushed oil to over $108/bbl. Although there is now a shooting war in Libya and continued violent unrest in the Maghreb and the Middle East, political risk in the oil producer states accounts for only a portion of the oil premium- maybe $15 a barrel or so. We can see this in the long term chart for oil and gold that West Texas Intermediate oil closed at its support level of $108/bbl seen before the run-up to $152/bbl in 2008, and before the collapse in 2009. But there were no popular uprisings in northern Africa in 2007. So what has driven the price of oil, gold and silver up since 2009?

The major reasons for the rise in gold, silver and oil are easy money and deficit spending policies. Since 2009, central banks have flooded the world with more and more paper money. More dollars, Euros, Yuan and Yen have steadily pushed up commodity prices at the expense of currency values. The US Dollar, for instance, has fallen 17% since February 2009, when the $838 Billon American Recovery and Reinvestment Act of 2009 was passed. The current US deficit is $1.6 Trillion; the US Debt is $14.2 Trillion, nearly 100% of GDP.

So now Standard and Poor has sent a dunning letter to the Washington central planners, warning it will downgrade the US sovereign debt rating if serious fiscal reforms are not implemented in the next two years.

We'll see. In the meantime, I'm buying long the precious metals.

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.