Breakout in Precious Metals
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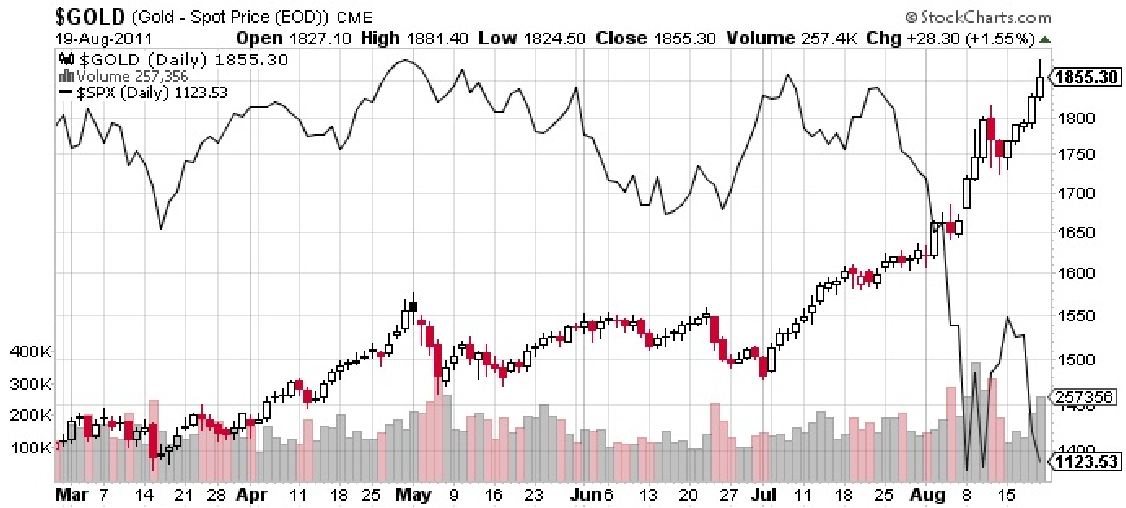
Silver is breaking out for another run to new highs. The metal is moving higher along with gold in the safe-haven trade. The precious metals are likely to get another push up from US economic policy-makers.

Gold and silver are benefitting from the flight to safety trade driven in part by the continuing European debt crisis and high volatility in the equity markets. Higher inflation, the US credit downgrade and slowing economic growth are also impacting equities; money is flowing out of equities and into hard assets.

We can see this dynamic playing out in the price of gold, which is testing new highs at the $1900/oz level. Gold's rise this month has accelerated on a parabolic trajectory, while the S&P 500 has sold-off steeply.



Money is also moving from stocks into US Treasurys, despite the US credit downgrade. Yields on the 10-year Treasury are at historic lows, dipping below 2% for the first time since the 2008 financial meltdown. But real rates for Treasurys have been negative at the published inflation rate. And the tax man takes his pound of flesh not matter what. So many investors choose gold and silver.

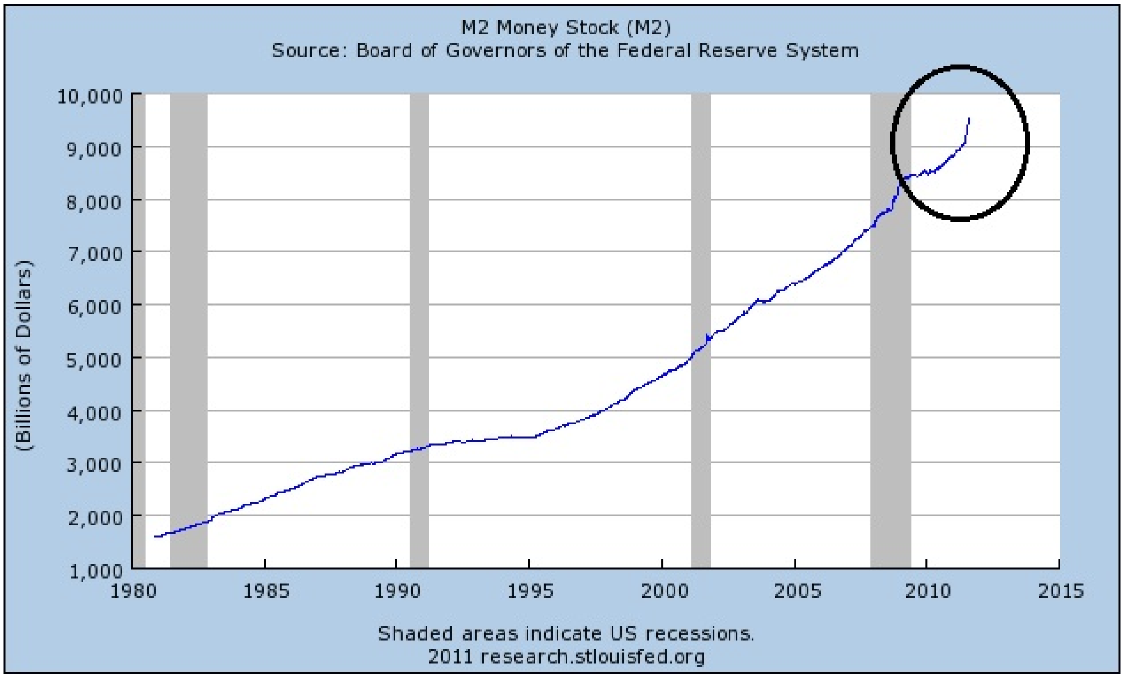
While gold has been move steadily compared to stocks this year, silver has been more volatile than gold. Silver declined a bit more than gold back in May, and has been trading in a range since. That is until it broke to the upside in the last two trading days. We cans see price action for COMEX silver has produced a bullish ascending triangle pattern over the last several weeks. Ascending triangle patterns are reliable bullish indicators. We saw an ascending triangle pattern in silver back in September 2010 when we called a buy at $20.78/oz and a target of $60/oz.

We can see that the pattern formed on declining volume, and that volume ticked up on the Friday's breakout. This volume behavior confirms the chart pattern. The point count for the ascending triangle pattern above creates a near-term price objective of 47 for COMEX silver. We would consider the breakout indicator to have failed if silver closes below 42 on any near-term pullback.

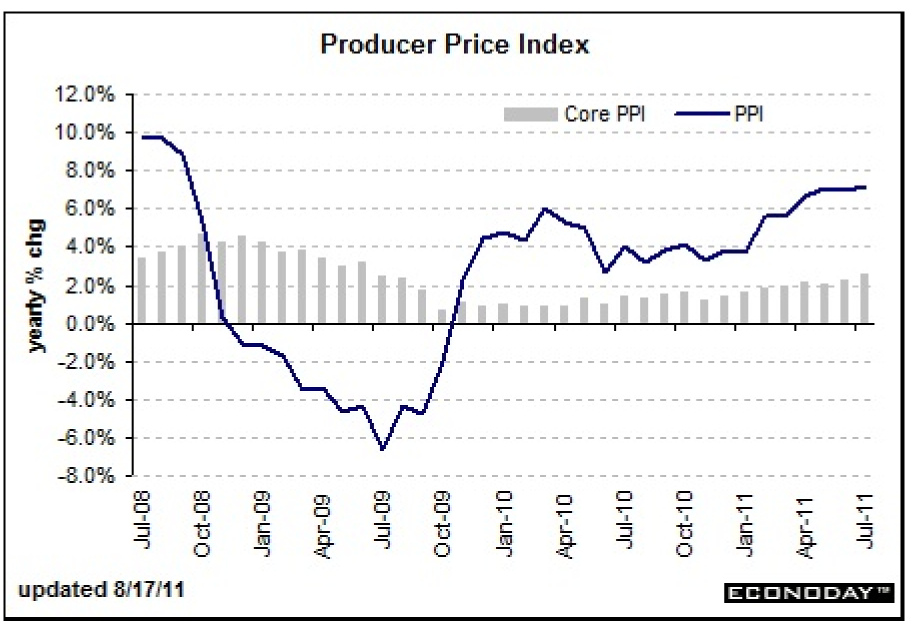
The longer term outlook for gold and silver is bullish as well. For gold, we can see rising money stocks as the major catalyst for further price gains. Another bullish factor is extended economic turmoil in the Eurozone. The gold/silver ratio dynamic will help pull silver up along with gold. Any move by the Fed to implement additional quantitative easing will accelerate the rise of gold and silver prices from here.

The quantity of money in the economy is increasing. As we know from Milton Freidman and Henry Hazlitt, "Inflation is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output." Fearing deflation would set in as a result of the financial meltdown in 2008, the Fed and central bankers around the world have flooded the place with liquidity. But, the Fed was wrong in 2008. Deflation was not the problem. The housing bubble burst, but prices in general were not falling into the abyss. The credit freeze was not a general phenomenon. Only a few Wall Street investment banks were locked out of the repo market on no confidence votes from counterparties. The Fed action to add $1.6 Trillion to the money supply was a gross over reaction to the tempest in the Wall Street teapot. The Fed's additional $600 Billion QE2 stimulus measure also contributed to growing inflation for all.

And on the inflation front, it will get darker before the dawn. The reason is “excess reserves.” That is, Fed member banks have been sitting on $1.6 Trillion in cash and have been reluctant to lend. But some of those reserves are now leaking out to the general economy. We can see that from M2, the Fed statistic that measures money in circulation plus demand deposits, savings account balances and small time deposits, has increased by $500 billion in the last two months. So there is more cash available to chase the goods and services, the surefire path to higher prices.



Excess liquidity is causing inflation, which is showing up in producer and consumer prices. The US Producer Price Index has jumped to 7% year-over-year, which is squeezing corporate margins and flowing into higher consumer prices. The US is also importing inflation from China. Inflation in China ticked up despite several efforts by its central bank to raise reserve requirements and tighten rates.



Gold is the premiere hedge against inflation, so we are seeing the price of gold move steadily higher. We can expect gold to reach $2000/oz and beyond in the next few months. The gold/silver ratio is telling us that silver could outperform gold this year on a percentage basis.

The question for you is, “How can I protect myself and my assets from inflation and market volatility?”

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.