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THE PRECIOUS METAL OUTLOOK

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(PART I)

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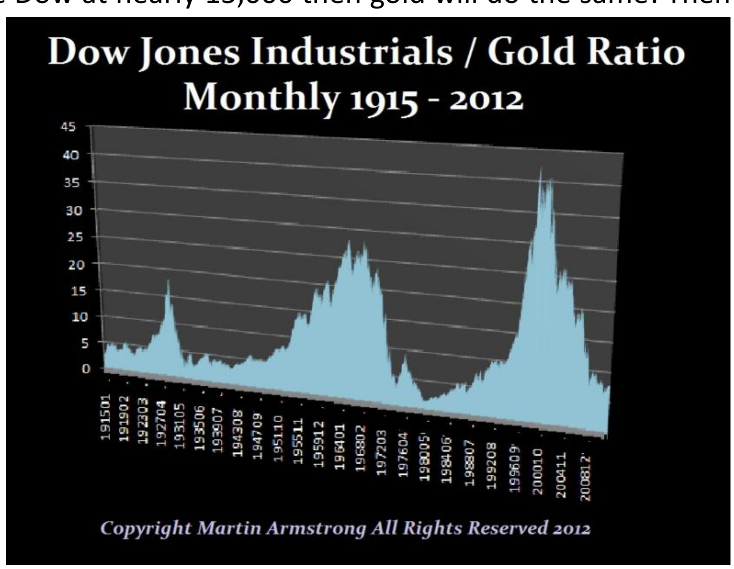
THE PRECIOUS METALS
THE REAL STORY

By Martin Armstrong

Gold remains the most maligned commodity on the board for it has been the object of great intensity on all sides. There are hoards of salesmen who tap into the Biblical fears of many to convince them they should buy gold. They spin wonderful stories about how all money is fiat and will collapse into dust and only gold is "real". Nothing like this has EVER happened in history. They preach that all one's assets should be gold with every rally it's "I told you so" and declines are always some evil force engaged in manipulation because they want to buy it cheaper. There are just opinions with no authoritative contacts of historical precedent. What they either do not comprehend (assuming they are devious crooks) is that Gold is part of a dynamic **GLOBAL** economy and to truly understand its role and place within the future requires an objective international analysis free of bias yet with real authoritative sources and some precedent. You simply cannot forecast gold alone in a vacuum, and if someone never says sell, they are a salesman and not an analyst.

THE PERPETUAL GIBBERISH & THE SNAKE OIL SALESMEN

The Precious Metals have been the target of snake-oil salesmen that spin a great story constructed of logical sounding sophistry that would convince a nun she needs condoms in case of an alien invasion. This sort of gibberish is dangerous running the full gambit from huge paper shorts in futures that if they were not there would result in a real bull market to paper money is not tangible, therefore worthless and will spontaneously combust at any moment. Then there is the division of the gold reserves into the national debt and they argue gold **MUST** go to $30,000 to seek equilibrium which is alongside the Dow/Gold ratio and since in 1980 gold reached $875 when the Dow was 1,000, then with the Dow at nearly 15,000 then gold will do the same. Then there is the massive short position of J.P. Morgan that is portrayed as long-term bank manipulation to somehow make people think there is no inflation? That position is really a hedge and has been in place for years. Bankers would never have created massive losses all the way up to create some image of inflation. That type of loss alone would have required a Fed bailout if that was true.



The Gold backwardation has been another fundamental sophistry – plausible but misleading argument, which has been distorted tremendously. Normally, this is the market condition wherein the price of a forward or futures contract is trading below the expected spot price at contract maturity. Consequently, the resulting futures or forward curve became "inverted" whereby it was negative because gold is trading at even lower prices. This is simply driven by interest rates.

The typical explanation for the backwardation they use to sell gold to the average person is that this proves there is a shortage. They claim that anyone holding gold could make a risk-free profit by delivering it and getting it back later at a cheaper price because of the inverted yield curve. The theory is that as people put on the trade this would push down the bid in the spot market and lift up the asking price in the futures market until the backwardation disappeared. This process is called arbitraging and thus since the backwardation is simply a shortage in the immediate supply, the arbitrage stimulates production and the shortage is corrected.

1851 California US Assayer of Gold
Legal Tender $50 Gold coin by Augustus Humbert

Gold is by no means in shortage. Its primary use is investment and jewelry. Gold has historically been a glut on the market and at times it has been scarce. During the 19th century, gold became very common with the California, Australia, and Alaska discoveries. The US$20 gold coin production began with the California discover in 1849 in major quantity leading to the image that in America the streets were paved with gold. This caused so much inflation, $50 legal tender gold coins began to appear in California with local inflation. Even rooms for rent soared to many times that of rent on the East Coast (gold declined in purchasing power).

They have pitched the story desperately to support a perpetual bull market in gold that this backwardation means that gold delivered to the market must be in short supply. Therefore, they argue that such a situation is resolved **ONLY** by higher prices. Therefore, they argued gold will rise in price **BECAUSE** of this backwardation. They argue that this took place for the first time in December 2008 when gold was trading at $750 on December 5, 2008, and rocketed to $920 (23%) by the end of January.

19th Century BC Contract to make a Future Delivery of Wooden Object & silver

They then claim this backwardation has become **PERMANENT** and therefore the **"trust"** in the gold futures market will collapse because they argue simple conjecture that people do not believe in "paper" gold (futures). They fail to explain that futures contracts have been taking place for thousands of years and were in fact invented by the Babylonians. A farmer plants his crop. He needs a guaranteed price to make a profit. He then sells on a contract for a "future delivery". Hello? This is how the entire commodities market has always functioned. They have spun this story around and twisted the facts to create some evil dark force that conspires to keep the gold market down. In their mind, if a gold producer needs to confirm he will be profitable, he sells forward his expected production. The buyer is buying that commodity "per se" but also the risk associated with it. A life insurance policy is the same thing and you can take one out on yourself for your family, but your employer can also take out a policy on your life because you are a key person. Many policies can be written against a single life all for different aspects of "risk" management – not really caring about whether or not you live, but what were to happen IF you died. Big deal! This does not suppress gold because if there were a change in the supply, prices would rise or fall accordingly.

Now let's talk reality. The Gold backwardation is simply nothing more than the collapse in interest rates. Much of the liquidity that came to gold in the early years was OPEC money. It had absolutely nothing to do with gold. The problem was OPEC was getting all this cash, but religiously they could not earn interest. Thus, I took clients and showed them that if we bought gold and sold it forward we were earning the effective interest rate but it was called the "carrying cost". Backwardation in this case is not indicative of any shortage whatsoever or a collapse in "trust" of the dollar. Just look at the German interest rates on short-term paper it went negative by 0.6%. This has **NOTHING** to do with fiat and people losing faith in paper money –***yada, yada, yada.*** If that were true, interest rates would not ***COLLAPSE***, they would ***SOAR*** because people would not trust government bonds and interest rates would rise trying to attract capital. The backwardation would end. You could sell the gold, convert that to cash earning the higher interest rates and replace it one year out for much less interest. It just does not work that way they are trying to sell this as yet another reason gold will **ONLY** rise.

Backwardation in gold is purely a money issue and it is simply the yield curve – nothing more. It went negative just as US government T-Bills went negative. If the "carrying cost" of gold was 500% higher than the 90 day paper interest rates, then you have a guaranteed trade by selling the forward and collecting that premium over the 90 day rate.

This has absolutely nothing to do with anything. The carrying costs of ALL futures contracts have declined with interest rates. The stories posted are astonishing. If they were remotely true, then you would see the same trend emerge everywhere and interest rates would rise if people did not "trust" paper dollars and government debt. There are many people pontificating nonsense that is just gibberish. This sophistry is getting people to buy gold for the wrong reason and risks only their sale when they figure out the story is just bullshit.

Gold is a tangible store of wealth to make the transition from the present to the future monetary system. It is not going to $30,000 creating false images of getting rich quick. It is not that "fiat" money always collapses – it does not. Asia has had nothing but fiat monetary systems where the emperor, the hand of God on earth, simply issued a bronze or iron coin and said this is valued at some value. Regardless of what money has been, it is **ALWAYS** a confidence game.

Buy gold because it is an **INSURANCE** policy against the transition. It is distinguished because it is **MOVABLE**, from classes such as real estate that are **IMMOVABLE**. The problem emerging with gold is that government is out to track every ounce and tax any sale. They are trying to eradicate the underground economy. That does not mean they will succeed, but it also means they will try.

You will **NOT** trust gold if you are lied to. This has become a used car salesman spinning all sorts of nonsense just to make the sale. We all know something is wrong. It has nothing to do with what is money. It is all about fiscal mismanagement. (1) Gold declined from 1980 into 1999 and all these fundamental stories were still there. (2) Gold rose into 1980 without backwardation. (3) We had a Gold Standard under Bretton Woods in 1945 and it collapsed in 1971 precisely in

26 years as always! It was the fiscal mismanagement and the fact money was backed by gold, which then meant absolutely nothing.

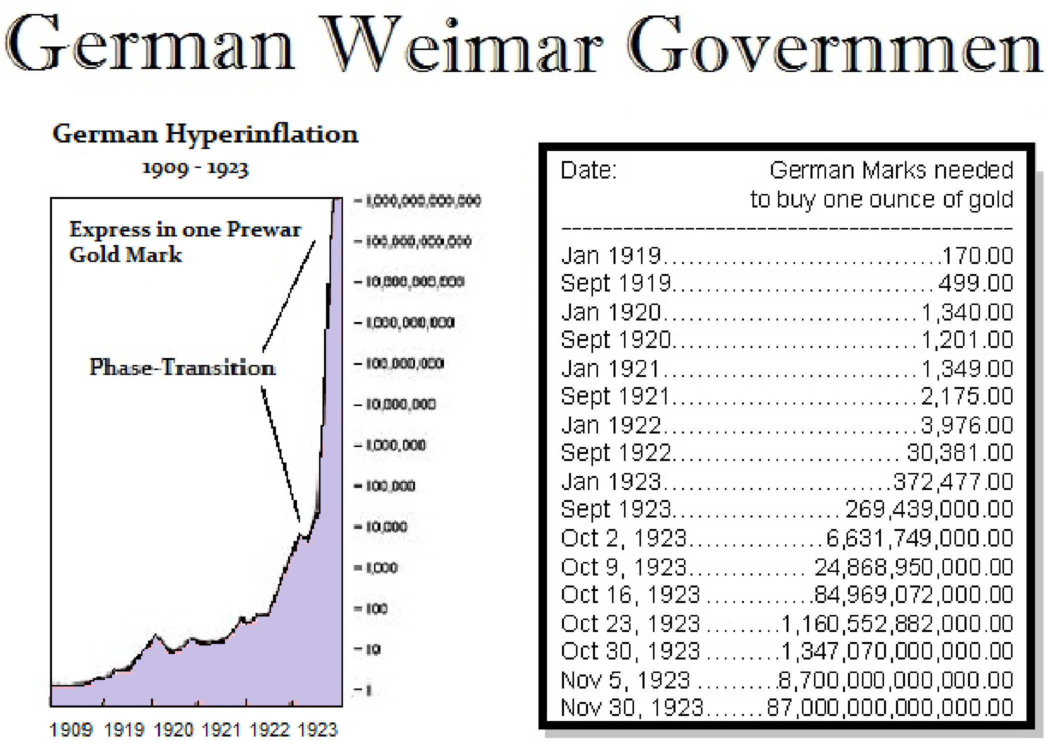
Another sales pitch has been the misrepresentation about **HYPERINFLATION** citing especially the German Hyperinflation of the 1920s. The argument is like saying a guy next door went bankrupt and lost his house because he lost his job so the same will happen to everyone who loses their job. He may have owed a fortune on his mortgage and the other the house was paid off. You cannot make comparisons to the German **HYPERINFLATION** when (1) it was not a “core” economy, and (2) it was not a long established government. They misrepresent the fact that when you say Germany, everyone assumes it is the Germany of today. Omitted from the discussion is that such an economic crisis followed the ***German Revolution of 1918***. The German Revolution was politically-driven civil conflict in Germany at the end of World War I, which resulted in the replacement of Germany's imperial government with a Weimar Republic. The revolutionary period lasted from November 9th, 1918 until the formal establishment of the Weimar Republic in August 1919.

German Communist Revolution November 9th, 1918
forced Emperor Wilhelm II to abdicate

The roots of the revolution lie in the German Empire's demise in the First World War. The Naval Command, which, in the face of certain defeat, nevertheless insisted on engaging in a last battle with the British Royal Navy. The German sailors revolted for it made no sense to die. The Wilhelmshaven mutiny erupted and the spirit of rebellion spread across the country. This broke out with a proclamation of a new republic on November 9th, 1918 forcing the abdication of Emperor Wilhelm II (1859–1941; Emp. 1888-1918).

Wilhelm II (1859–1941; Emperor 1888-1918)
Gold 1914 20 Mark

Nonetheless, keep in mind that the **Russian Revolution** was 1917. Consequently, the German revolutionaries were certainly inspired by the emerging communist ideas. However, the German communists failed in their effort to hand power to soviets as the Bolsheviks had done in Russia. In Germany, it was the Social Democratic Party of Germany (SPD) leadership that refused to work with communists who supported the Bolsheviks. Moreover, the SPD feared that an all-out civil war would erupt in Germany between the communists and the German conservatives. Hence, the SPD struck a middle ground and did not plan to completely strip the old imperial elites of their power and assets. The SPD sought a compromise whereby they were integrated into the new social democratic system. The left wing fell into political fragmentation that prevented Germany from turning communist at the time. The Weimar Constitution was adopted on August 11th, 1919. It was this government that moved into hyperinflation, not the old Imperial Government.



Date:	German Marks needed to buy one ounce of gold
Jan 1919	170.00
Sept 1919	499.00
Jan 1920	1,340.00
Sept 1920	1,201.00
Jan 1921	1,349.00
Sept 1921	2,175.00
Jan 1922	3,976.00
Sept 1922	30,381.00
Jan 1923	372,477.00
Sept 1923	269,439,000.00
Oct 2, 1923	6,631,749,000.00
Oct 9, 1923	24,868,950,000.00
Oct 16, 1923	84,969,072,000.00
Oct 23, 1923	1,160,552,882,000.00
Oct 30, 1923	1,347,070,000,000.00
Nov 5, 1923	8,700,000,000,000.00
Nov 30, 1923	87,000,000,000,000.00

Consequently, this was a revolutionary government. All economic activity stopped. The wealthy were scared to death. They saw the bloodshed in Russia in 1917. Capital hoarded and the velocity of money imploded. So while many point to the German Hyperinflation and then say we will enter the same result, are taking only the hyperinflation and ignoring the events that caused it. There were NO gold reserves. There were no lenders to the government. There were no bond markets. There was absolutely nothing. Nobody would dare lend anything for the fear was Germany would go the way of Russia. The hyperinflation took place because capital went into hiding out of fear of the new Communist government would confiscate everything as was the case in Russia. The hyperinflation simply soared for there was no capital and no investment.

RM.

German 50 Rentenmark (1925 issue)

The collapse of confidence in the Communist government known as the Weimar Republic, led to the collapse in the monetary system. This is the essence of all currency – **CONFIDENCE**. The very first "official" coinage in Lydia located in Turkey about 600BC was the simple act of creating a standard weight and the king applying his seal to confirm it was real. Thus, money began as the king establishing a standard and it was the **CONFIDENCE** in the king that made the first coins acceptable. That is what gives all money value – **CONFIDENCE**. It is not the intrinsic value for money, Asia never had any intrinsic value since 240BC. It is always based upon the trust one has in the monetary authority.

Lydia - First Offical State Sponsored Coin

The hyperinflation was resolved not by a return to the gold standard, but instead it was backing the currency with land – real estate. The currency that stabilized the economy was known as the ***Rentenmark*** issued by the ***Deutsche Rentenbank***, which at the time owned industrial and agricultural real estate assets. It was the introduction of that land backed currency that the people accepted as the alternative currency and the hyperinflation was broken. The ***Rentenbank*** had mortgaged land and industrial goods worth 3.2 billion ***Rentenmark*** to back the new interim currency. This restored the **CONFIDENCE.** The ***Rentenmark*** was introduced at a rate 1 ***Rentenmark*** = 1012 Mark, establishing an exchange rate of 1 United States dollar = 4.2 RM.

The ***Rentenmark*** was only a temporary currency and was not legal tender, meaning it was not accepted by the communist government. It was, however, accepted by the population and effectively stopped the hyperinflation. The ***Reichsmark*** ($\mathcal{RM}$) replaced the ***Rentenmark*** and was the new legal tender currency on August 30th, 1924, which was equal in value to the ***Rentenmark*** and lasted until June 20th, 1948. The exchange rate between the old ***Papiermark*** and the ***Reichsmark*** was 1 $\mathcal{RM}$ = 1012 ***Papiermark*** (one trillion/European style thousand billion). This actually satisfied a two-tier monetary system for the real estate satisfied the domestic fears, but was exactly a backing that could provide a movable asset internationally. Therefore, it was the introduction of the ***Reichsmark*** that returned Germany to a gold standard at the rate previously used by the ***Goldmark***, with the U.S. dollar being worth 4.2 $\mathcal{RM}$. What the Germans did not realize, that they had actually divided and conquered the core issue lurking behind the curtain in every monetary system – domestic v international trade. The hyperinflation was a domestic oriented event based on a lack of confidence in a revolutionary government separate and distinct from an international balance of payments crisis. This is the distinction of a two tier monetary system.

Clearly, this is why the hyperinflation of Germany and Zimbabwe is simply not even plausible today. They are greatly distorted and touted as sales tools for gold and that is dangerous for when the fundamentals do not pan out, confusion and crisis follow. Feeding people distortions of history is highly dangerous for when the truth finally emerges, then the people lose confidence rapidly in everything.

Then there was China which was starting to trade gold in Yuan and somehow all the positions in New York would migrate to China to be a free market – right! These stories just show how ignorant the promoters are for it was simply a way to experiment allowing the currency to trade. Then they spun great tales how the Yuan would kill the dollar and replace it as the new reserve currency. These people know nothing about anything they talk about for the dollar is the reserve currency because there is a $17 trillion supply. How can big money park in the Yuan without that kind of deep bond market and no sustainable rule of law? Who dreams up this nonsense?

Of course we cannot leave out the fiat claims, that don't bother to mention how gold declined for 19 years when money was still fiat. We cannot forget the gold standard and how that will save the world forgetting to mention that we had a gold standard established in 1945 by Bretton Woods and we still collapsed. Then there is the massive $3 trillion creation of money by the Fed that would lead to **HYPERINFLATION** with no mention that there was a $5 to $7 trillion decline in money supply due to the deleveraging. People still have homes with mortgages at $250,000 and valuations of $190,000. The spin doctors have been relentless.

These arguments are as old as history. They constantly resurface to pitch the same claims over and over again. During the 19th century, there was the heated debate over the gold standard and how it created **DEFLATION**. The silver/gold ratio was the central debate for decades and that stemmed from the fact that a ton of silver was discovered sending prices downward and the miners enlisted the spin doctors to convince the people they needed a "Free Silver" movement because it was being officially suppressed. Even the Japanese yen in 1870 was on par with the US silver dollar yet today the yen trades at more than a 100 to $1.


Japan Meiji 1870 Silver 1 Yen
(year 3 - weight 27 grams)

The yen was therefore basically a dollar unit. It was based on the Spanish 8 Reales/German Thaler. Up until the year 1873, all the dollars in the world were more or less the same value until the international devaluation of silver in 1873. It was the ***Panic of 1873*** that was a global financial crisis which triggered a severe international economic depression in both Europe and the United States that lasted until 1899.


Spanish "*Pillar Dollar*" 1739
8 Reales

It was this economic depression that was known as the ***"Great Depression"*** until the 1930s. However, it has become known as the ***Long Depression*** for it lasted from 1873 until 1899 (26 years). The historic high in US call money interest rates on the New York Stock Exchange also peaked in 1899 near 200%.


1873 United States $1 Silver
(Mintage: 0; Diameter: 38.1 mm; 90% Silver - 10% Copper)
Weight 26.73 grams - Fine Silver 24.057 grams

Franco-Prussian War (July 19, 1870 – May 10, 1871)

The panic was caused by the fall in demand for silver internationally, which followed the German decision to abandon the silver standard in the wake of the Franco-Prussian War (July 19th, 1870 – May 10th, 1871). Today we have the desperate threat of governments selling gold to meet bills to hold on to fleeting power.

Nonetheless, this conflict was a culmination of years of tension between the two nations. The excuse became the controversy over the candidate for the vacant Spanish throne, following the deposition of Isabella II in 1868. It was a bloody war. Finally, the Germans moved onto Paris. The Siege of Paris (September 19th, 1870 – January 28th, 1871) brought about the final defeat of the French Army. On January 18th, 1871 the new German Empire was proclaimed at the Palace of Versailles. It was the rapid German victory over the French that had stunned the world. Many had assumed there would be a French victory based upon past performance of Napoleon. At the very least, the majority expected a very prolonged conflict. The strategic advantages possessed by the Germans were not appreciated outside Germany until after hostilities had ceased.

The decision of the German Empire to cease minting the silver thaler coins in 1871 caused a drop in demand and downward pressure on the value of silver. The cost of the war was huge and Germany could not afford to spend gold to buy silver to create coins. As always, war historically creates inflation. The ramifications resulted in a collapse in silver prices globally when Germany stopped buying silver.

GERMANY-BAVARIA 1871 Silver 1 Thaler
Victory in Franco-Prussian War Silver
18.5200 grams - 90% Silver - Fine Silver 16.668 grams

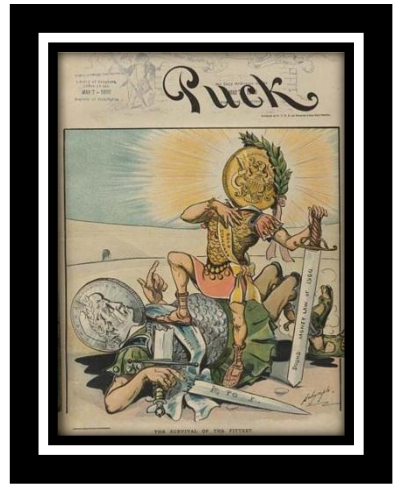
The impact of the Franco-Prussian War in causing Germany to abandon the silver standard was felt globally. This manifested in the United States where silver discoveries had made it the largest producer. You can call it money, but if a nation has no precious metal mines, then you are saying they have no money unless they FIRST buy it, but then what? This crisis where Germany had to import silver to create money became a huge paradox. How does one buy money to expand the money supply without credit? Naturally, the miners thought the game was rigged much as the rhetoric goes today and wanted a "free silver" market that they convinced themselves would result in higher prices.

US Trade Dollars 1873-1878
420 grains at 900 Fine

United States ***Coinage Act of 1873*** demonetized silver, leading to the collapse of the silver dollar. The Silver Bulls of the day were anti-gold standard and called this the ***Crime of 1873***. Although Trade dollars were produced from 1873-1878 to facilitate trade with China who remained on the silver standard, they were meant for circulation overseas and were not legal tender in America. The Act moved the United States to a 'de facto' gold standard, which meant it would no longer buy silver at a statutory price or convert silver from the public into silver coins.

In response to the deflation of the period, domestic misunderstanding that the economic decline was caused by the demonetization of silver led to a political movement that called it the ***Crime of 1873***. Congress was forced to pass the ***Bland-Allison Act*** in 1878. The Act required the U.S. government to purchase large quantities of silver and turn that into silver dollars. Thus, the silver dollar denomination was restored once again in the form of the Morgan dollar named after its designer, George T. Morgan. Its large size, abundant supply, has led to its popularity.

1878 United States $1 Silver
(Mintage 10,500,000; Diameter: 38.1 mm; 90% Silver - 10% Copper)
Weight 26.73 grams - Fine Silver 24.057 grams



There has been the huge debate about the silver/gold ratio. That too has been erroneously touted as evidence that silver should rise to 16:1 because that is where it once was during the 19th century. These assertions only lead countless people to huge losses. The silver/gold ratio is by no means indicative of anything other than it too fluctuates according to supply and demand.

This was the whole debate with the Silver Democrats who argued against the austerity back then by maintaining only a gold standard. The Silver Democrats wanted to inflate the money supply to end the austerity that is exactly the policy of Germany in Europe in contrast to the USA today. Austerity only creates a depression to benefit the bondholders at the expense of the people. This is because **MONEY** is by no means a constant rising in purchasing power during austerity and declining during inflationary booms.

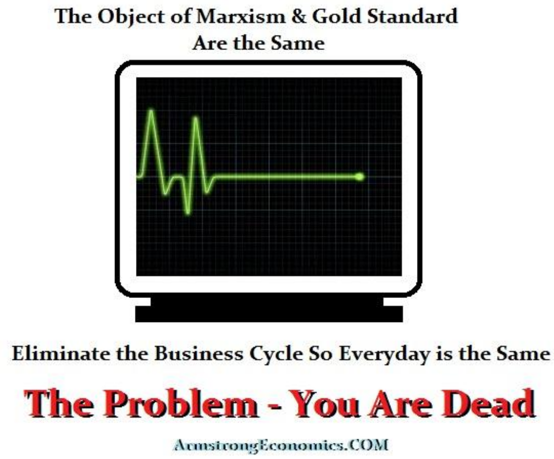
1863 $100 Gold Certificate

The "***Gold Standard***" of which so many speak today comes in different flavors. First, there is the ***Gold Specie Standard*** which is a system whereby the paper monetary unit is associated with the value of circulating gold coins and is redeemable in gold upon demand as a “convenience”. There is also the ***Gold Bullion Standard*** whereby gold coins do **<u>not</u>** circulate domestically. Historically, Florence had the gold ***Florin*** that was used solely for international trade and the silver ***Florino*** used domestically for wages etc.. In the case of Florence, the value of the gold ***Florin*** floated with the economy. Franklin Roosevelt in 1934 created the ***Fixed Two-Tier Gold Standard*** with a redeemable circulating currency internationally fixed at $35 to the ounce. This was the ***Fixed Two-Tier Gold Standard*** system adopted internationally under Bretton Woods (1945-1971).

Monetary System of the Republic of Florence

Fiorino d'Oro 1252-1303 | Fiorino d'Argento (Grosso), c. 1260

Then there is the ***Gold Exchange Standard*** which does not involve the circulation of gold coins, but rather the government guarantees a fixed exchange rate with another country that does not use the gold standard (specie or bullion), regardless of what type of notes or coins are used as a means of exchange. This creates a de facto gold standard, where the value of the means of exchange has a fixed external value in terms of gold that is independent of the inherent value of the means of exchange itself.



There have rarely been gold standards fixing the value of money throughout history because they are attempts to flat-line the economy because people do not want to cope with the business cycle. They assume they can fix the price of money, but then they want assets to rise so they make money by capital gains while money still buys the same somehow since it is fixed. They completely fail to comprehend the nature of the beast they are trying to create. You cannot fix the value of money without fixing everything else. The object of Marxism and the Gold Standard are the same – eliminating the business cycle.

Just because there were gold and silver coins does not mean there was a "gold standard". Even Hammurabi's Law Code (c 1772 BC) provides values in terms of grain and silver. Precious Metals were neither the exclusive monetary instrument nor was there a "standard" attempting to fix the value of money except on rare occasions such as the Monetary Crisis of the 3rd Century AD that the Emperor Diocletian (284-305AD) dealt with introducing Wage & Price controls in an effort to stop inflation. Therefore, it is often portrayed that gold was always money and that the invention of paper money somehow was contrary to history. One of the oldest civilizations, Egypt, used what we would call paper money today. Farmers deposited their grain into state silos and received receipts that then circulated as money. A unified kingdom was founded c. 3150 BC by King Menes, leading to a series of dynasties that ruled Egypt for the next three millennia. Egypt **NEVER** issued coins until it was conquered by Alexander the Great in 334BC. So one of the oldest cultures used effectively paper money for about 3,000 years as did China where "paper money" was invented in more modern times.

The 1865 Gold Standard – The Latin Monetary Union

Attempts to create fixed monetary values among nations were really an effort to invent a sort of one-world currency, which began in 1865 and was known as the **Latin Monetary Union**. This was originally a monetary union established between France, Belgium, Italy, and Switzerland. These four countries established a bimetallic monetary standard whereby the established a silver to gold ratio of 15.5 to 1. This was the silver/gold ratio that was first adopted by France in 1803, and it was thereafter adopted by Belgium, Italy, and Switzerland. This union also agreed that the gold coinage would be struck at .900 fine and that there would be a uniformity regarding their denominations.

In reality, the Latin Monetary Union was a standard established by Napoleon (1801-1815). Hence, a gold French 20 Franc piece was equal to an Italian gold 20 Lira, which was also then equal to 20 Belgium Francs and was equal to 20 Swiss Francs. It was the French monetary system that dominated the union, again thanks to the military power of Napoleon.

George III (b 1738; 1760–1820)
1817 Gold Sovereign

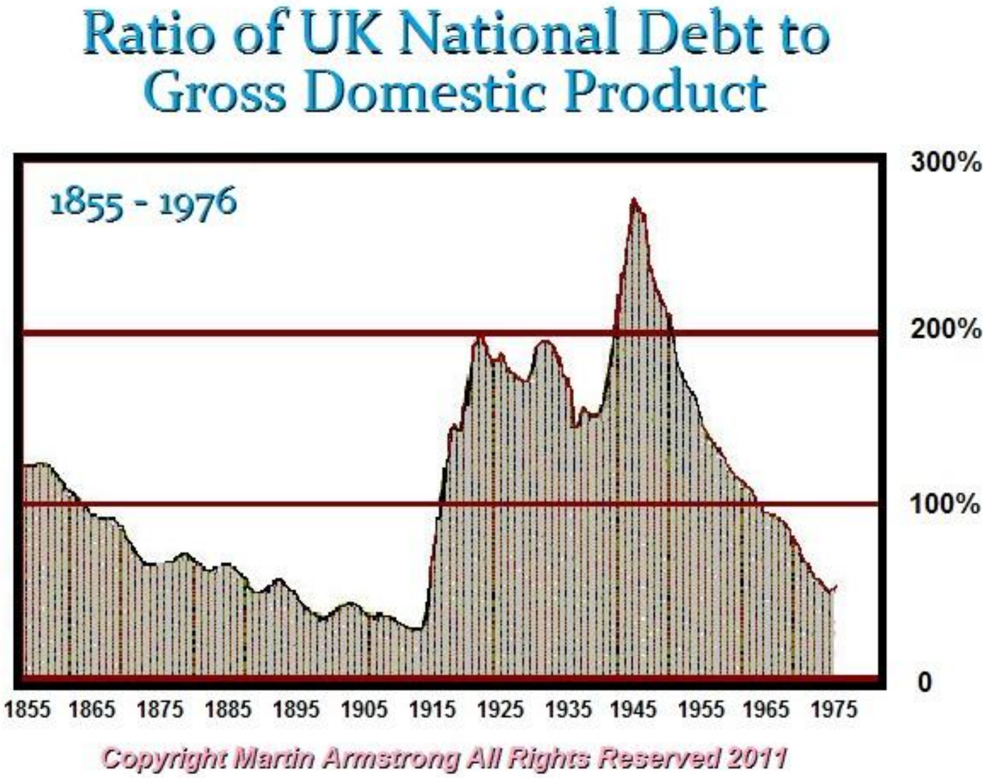
Although Napoleon was defeated, most European countries continued to follow this French standard, including Britain. The British issued the gold "***Sovereigns***" starting in 1817 with George III (1760-1820) that was one pound-equal to 20 francs. Greece had also complied with this French standard issuing an gold 20 Drachma that began in 1833, Nevertheless, Greece formally joined the Latin Monetary Union in 1868.

France was seeking to establish a world currency standard based upon the French system. While France was not exactly successful in this goal completely, it had indeed gathered a significant number of countries. For example, Peru issued a gold Libra that was equal to 20 French Francs. Tunis joined issuing in 1891 a gold 20 Francs. The number of countries that joined the Union were 26 in total.

Albania	Peru
Argentina	Philippines
Belgium	Poland
Bulgaria	Romania
Columbia	Russia
Finland	Salvador
France	San Marino
Greece	Serbia
Guatemala	Spain
Honduras	Switzerland
Italy	Tunis
Monaco	Venezuela
Montenegro	Yugoslavia

Soviet Golden Chervonets, 1923

The Genoa Conference was held in Genoa, Italy in 1922 from 10 April to 19 May. There were representatives from 34 countries gathered to discuss global economic problems following World War I. The purpose was to formulate strategies to rebuild central and Eastern Europe, especially Russia after the war. One solution formulated at the conference was the proposal that central banks make a partial return to the Gold Standard. Eventually, the Latin Monetary Union broke apart in 1926. A few countries continued to adhere to mint coins at this standard, namely Switzerland, Luxembourg, Liechtenstein, and Romania. Even the Russians starting in 1923 a gold coin they called one Chervonetz (10 Rubles) with a second issue in 1925.



Nevertheless, this attempt to resurrect the gold standard of the prewar era was still effectively a French idea for a Monetary System which had collapsed with World War I. Gold had fled Europe and poured into the United States fleeing the warzone. This shift in gold reserves eventually followed the shift in the financial capital of the world from Europe to America. The Genoa Conference was concerned about international trade, not about domestic use of gold creating once again a ***Two-Tier Gold Standard.*** Thus, the real peak in Britain as the financial capital was 1914 illustrated by the huge advance in its debt due to World War I, and from there onwards, the United States began to rise from virtual bankruptcy in 1896 when J.P. Morgan had to bailout the US Treasury with a gold loan of $100 million. Morgan effectively saved the nation and coerced banks during the Panic of 1907 to hold the line saving even the stock exchange. Nevertheless, all his efforts were demonized for he helped to manage the default crisis of 1896 and the Panics all the way to 1907 and that merely created resentment which emotionally devastated him and caused his death.

J.P. Morgan - Bigger than Uncle Sam

The argument for a ***Gold Standard*** which will save the world is about as practical as the Euro, which these same people touted as displacing the dollar as the reserve currency and would rule the world. The ***Gold Standard*** is no different than the many attempts to "peg" currencies as well. There was the famous failure of the peg of the British Pound to the Deutsche Mark that collapsed in 1992 blaming George Soros.

When we look closely at the 1992 collapse of the pound, the dollar also broke against the yen and the yen rallies forcing the dollar and the pound into a major low for 1995.

The argument that Soros manipulated the market is saying that the politicians were correct in politically fixing the pound to the European currencies known as the ERM (Exchange Rate Mechanism). If this were true, then we would see a break in only the pound and then it should rebound after Soros took his profit. But this is not the case. Soros was simply trading with the trend. Proof of that is the continued decline of the pound for the next 3 years along with the dollar. Japan was in the depths of a serious capital contraction. They were selling foreign investments and taking the money home thereby causing the yen to RISE. This was simply a global capital flow trend. John Major had promised in the campaign that he would NOT devalue the pound. That was a political decision and not based upon the economics. Consequently, the pound was overvalued within the ERM and the break was inevitable regardless who was on the trade.

Fixing currencies and pegs **ALWAYS** fails without exception. This is simply because there is a business cycle that cannot be defeated by arbitrary political decisions. **MONEY** cannot be tangible and fixed in some sort of steady perpetual value – that is communism to defeat the business cycle creating the flat-line economy. The Euro could not displace the dollar as the reserve currency because it was incapable of providing a true **Single Currency** for it **DID NOT CONSOLIDATE THE DEBT** and thus constructively transformed all the national debts of the member states into simply a synthetic **VIRTUAL CURRENCY** that will still rally and decline. Without a single national debt, there can be no single currency since the inherent political **RISK** factor (**CONFIDENCE**) was different within each member state.

The Euro has utterly failed because of its fatally flawed structure. Normally, a sovereign currency allowed for the depreciation of the national debt transferring the political risk to the bondholder through the currency. The euro **REVERSED** the process transferring the risk that used to be within the currency value from the bondholder to the state in the form of interest rate risk - a real brain-dead decision. The bondholder has "***price***" risk on any resale of a bond before maturity insofar as the price will decline when interest rates move higher. However, because debt is now a derivate of political risk (**CONFIDENCE**), greater volatility will appear in the interest rate transferred from the old currency.

Lydia Gold Stater 6th century BC

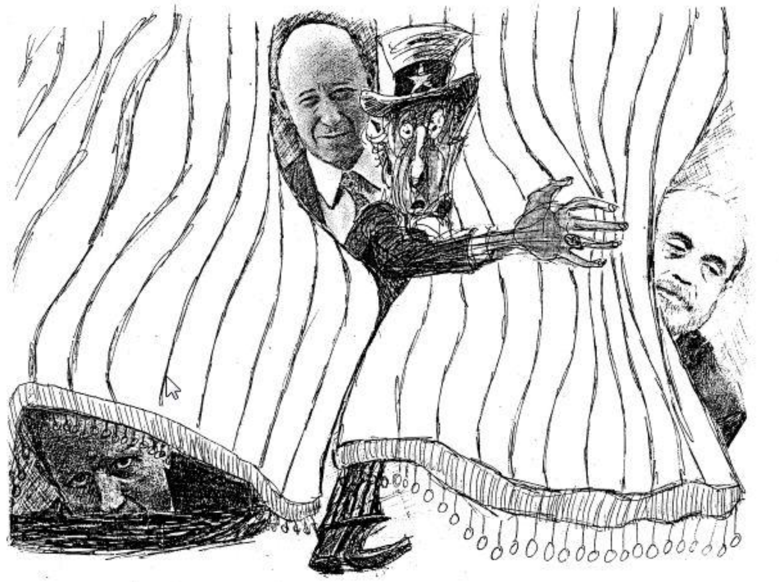
The precious metals are simply a market – nothing more. They are not the object of perpetual manipulation. All currencies will not collapse into dust and only gold will survive. That has simply **NEVER** happened in the history of society. Fiat currency has been the norm. Coinage was invented in Lydia (modern Turkey). Upon the Persian invasion, to fund the war, the government discovered the way to create more money was to reduce the weight of the gold stater from 10.89g to 8.17 grams. Egypt used effectively warehouse receipts of deposits of grain as money for nearly 3,000 years. China issued bronze coins that were always valued far above and metal content. So these claims that fiat money must collapse into dust are just without any historical precedent whatsoever. China even issued paper money from the 13th century. When Kublai Khan invaded China, he recognized the outstanding paper money and accepted it as the money of China.

MONEY has always been based upon CONFIDENCE. That is its backing including the total productive capacity of the nation. Neither Japan nor Singapore had a wealth of natural resources. Both have risen to be among the richest productive nations. If a nation has no precious metal reserves, then is it perpetually broke forever?

Just Show Me the Money

Invest and succeed if we do not understand what we are doing. Why put out all this nonsense to desperately get people to buy is just not right. This is not some cult. It is a market and the real professionals trade only technically, never fundamentally! The golden rule of investing is to NEVER get involved marrying the trade. That is not to say reason does not exist as a component. The strange paradox that exists emerges during times of confusion. At that moment, everyone wants some explanation. This is the dangerous moment when the snake-oil salesmen come out and proclaim it is a false move so just hold and then there is the unfortunate person who believes the talking heads.

This type of propaganda has been used to suck in the average person every time and the pros count on that to sell it to them. I knew about the Hunt brothers in the early 1970s. It was the dealers who wanted to go short against them and leaked out news that the Hunts were manipulating silver and the target price was $100. Silver peaked at $50.40 crashing and burning thereafter falling to $10.80 real fast in a **PERFECT** 17.2 week decline. That was in accordance with the 8.6 frequency. The dealers got together with the COMEX officials (dealers) to rig the game and they increased the margins to go long and decreased them to go short. They were deliberately trying to bankrupt the Hunt Brothers and the press, bought and paid for, helped them accomplish that goal.



It is indeed sad that so many people are misled by bogus research. This is a key ploy that takes place behind the curtain. Anyone can stand-up and claim to be an analyst. That does not make them an analyst and **UNLESS** you have traded, you will **NEVER** understand how markets really move. It is like going to a 5 year old for advice of sex. This type of research is typically sponsored by the very people who need volume to sell to. Stir up the masses with nonsense and sell into their buying. This is how they manipulate markets all the time.

They remove product from official warehouses to create false images of shortages to send prices soaring. This was standard during the 1970s in Agricultural markets. To manipulate Platinum, they paid bribes to Russians to recall supplies to take inventory sending prices soaring. When they sold the top, Russia return the stock and guess what – discovered more. The Warren Buffett silver fiasco was the same nonsense. He was buying in London so silver left the warehouses in USA and was moved there so the shortages were claimed to justify the rally from $3.50 to $7.00. These games take place all the time. Even in the **DOT.COM Bubble** of 2000, the Investment Banks were putting out fake research to send stocks up so they could sell. They all pled guilty to the SEC on that one. What about Solomon brothers manipulating the US Treasury Auctions. Ever hear of the LIBOR scandal going on right now? This is the way they make money. They target manipulations. The strange thing is these no trading analysts advise buying every high, then blame the decline on a manipulation, and **NEVER** say sell. This is the MO of fake analysts on the take.

It is hard enough to maneuver between the falling raindrops so I fail to see why anyone supports analysis that never says **SELL**. There is a **TIME** for everything – a **TIME** to buy and a **TIME** to sell. The Bible says so as does the old song of Kenny Rogers - The Gambler (***You have to know when to hold them; know when to fold them; know when to walk away; know when to***

run). There is something morally wrong with leading a pack of investors over a cliff. How do they sleep at night? Counting their payoffs? These are the people who will lose a fortune and capitulate at the low as always. The decline in gold from the September 2011 high at $1,920.30, is starting at last to shake out the weak longs and is once again reminiscent of the 19-year bear market when the same fundamental nonsense was touting **BUY – BUY – BUY** day-in-and-day out. The problem with fundamental analysis is that you never know if you really have all of the information.

One of the primary arguing points has been the Fed expanding the money supply. This has been touted as leading to a **HYPERINFLATION** so you better buy gold. The problem with this scenario is that the bottom line is that we live in a dynamic **GLOBAL** economy and this myopic focus on domestic nonsense like the Fed is going to **HYPERINFLATE** the economy is just far from realistic. The Fed is by no means in control of the world and it too is merely in the back seat of the wild cab ride driven by a kangaroo. What we must understand is that **ALL** fundamental analysis is interpreted based upon the current sentiment. If everyone is bullish, bearish news is ignored and quickly forgotten as long as the cycle has not culminated into its final phase transition. Likewise, when the market is bearish, bullish news comes out and it is quickly dismissed as is the case with earnings. For example, the common response when a stock declines in price on a good earnings report given by the talking heads is that it was ***"not as good as expected."*** So the key is not the fundamental explanation, but **TREND** of the market within the business cycle at that moment that determines **HOW** that fundamental will be interpreted.

To survive what we face requires patience, real understanding that provides the **CONFIDENCE** to invest and to flip the position when it is necessary. The key is to survive – not to vindicate some theory. The economy changes and adapts because the driving force is humanity. Government by no means is in control. All they do has been just reacting to events set in motion by the trend. Arthur Burns, who was the Chairman of the Federal Reserve from 1970 until 1978, concluded that the Business Cycle, which Keynes and Marx tried to eliminate, was alive and well.

"For well over a century business cycles have run an unceasing round. They have persisted through vast economic and social changes; they have withstood countless experiments in industry, agriculture, banking, industrial relations, and public policy; they have confounded forecasters without number, belied repeated prophecies of a 'new era of prosperity' and outlived repeated forebodings of 'chronic depression'"

Arthur F. Burns (1947. 27)

Arthur Burns (1904-1987)
Federal Reserve Chairman
(1970 to 1978)

Time Magazine - March 1982

Paul A. Volcker, Jr. (b 1927), followed Arthur Burns as Chairman of the Federal Reserve in that position from August 1979 until August 1987. Volcker also came out and pronounced in 1979 that all efforts to temper and control the Business Cycle had failed. He entitled his analysis in 1979 - ***Rediscovery of the Business Cycle.*** What Volcker expressed was that the age of ***"New Economics"*** had proven to be false. That statement meant in real terms that government could not eliminate the business cycle and that Marist-Keynesian Economics had a complete failure (see side-bar).

In reality, here are two Fed chairman and both are saying the same thing – Government is not truly in charge. The economy is the dog, not the tail. That means plainly that it is the economy that causes government to react rather than the economy to be tempered and controlled.

"The Rediscovery of the Business Cycle – is a sign of the times. Not much more than a decade ago, in what now seems a more innocent age, the 'New Economics' had become orthodoxy. Its basic tenet, repeated in similar words in speech after speech, in article after article, was described by one of its leaders as 'the conviction that business cycles were not inevitable, that government policy could and should keep the economy close to a path of steady real growth at a constant target rate of unemployment.'

"Of course, some minor fluctuations in economic activity were not ruled out. But the impression was conveyed that they were more the consequence of misguided political judgments, of practical men beguiled by the mythology of the old orthodoxy of balanced budgets, and of occasional errors in forecasting than of deficiency in our basic knowledge of how the economy worked, or in the adequacy of the tools of policy. The avant-garde of the profession began to look elsewhere – to problems of welfare economics and income distribution – for new challenges.

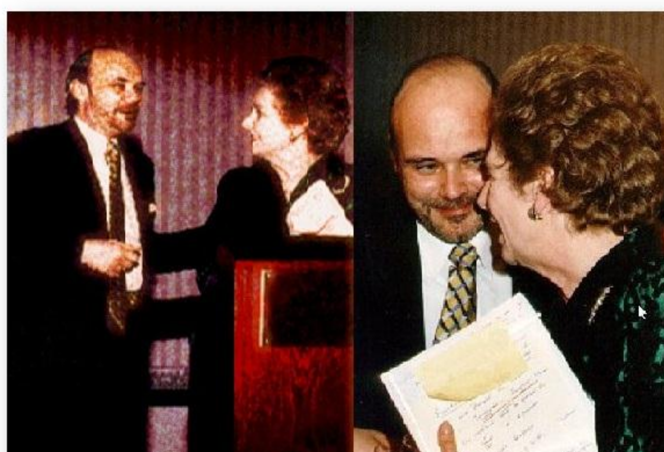
"Of course, the handling of the economic consequences of the Vietnam War was an obvious blot on the record – but that, after all, reflected more political than economic judgments. By the early 1970s, the persistence of inflationary pressures, even in the face of mild recession, began to flash some danger signals; the responses of the economy to the twisting of the dials of monetary and fiscal policy no longer seemed quite so predictable. But it was not until the events of 1974 and 1975, when a recession sprung on an unsuspecting world with an intensity unmatched in the post-World War II period, that the lessons of the 'New Economics' were seriously challenged."

"Step one is to recognise what is obvious: that we did not abolish the business cycle. We should never have claimed it. You can't in a market economy. And public spending plans cannot depend on it. Nor can you write your own fiscal rules and then be the judge and jury for how they are calculated and when they are met."

David Miliband (b 1965) former leader of the British Labour Party
Member of Parliament (MP) 2001-2013

David Miliband (b 1965) was an English politician from 2001 until 2013 who announced he was stepping down after losing the Labour leadership to his brother no less. He was the second son of Ralph Miliband (1924–1994), who was a Belgian-born sociologist known as a prominent Marxist thinker who has been described as *"one of the best known academic Marxists of his generation."* Nonetheless, what is interesting is here his son had written a victory speech he never got a chance to deliver that is also revealing regarding the view behind the curtain of the Business Cycle. He also wrote that the Business Cycle cannot be controlled even as his father had claimed. ***"We should never have claimed"*** that we can control the economy.

Lady Margaret Thatcher (October 13, 1925 – April 8, 2013) came and spoke at our Conference in 1996. That act was in itself an endorsement of cyclical analysis. She explained that in politics, government thinks in trems of trends but should look at things from a cyclical perspective. Lady Thatcher and I discussed politics in Britain, she told me that John Major would lose the election which he did in (1990-1997). When I asked her ***why*?** She responded ***"It's Just Time."*** Lady Thatcher understood that all things change. Most politicians have assumed that they can defeat that cycle of change both in politics as well as within economics. Most politicians will not publicly admit that Socialism is dead, other than true free thinkers such as Lady Thatcher. But behind closed doors, they know that Marxism has just completely failed.



Margaret Thatcher
(Addresses our Conference 1996)

There is a Time For Everything

We must come to grips with the understanding of **TIME** and that there is no linear trend, but a cycle which swings between two opposite extremes. This is how energy moves through any medium be it space, the ocean, and biological systems, including disease which moves through society. The first priority is always **TIME**. The price movement completes within the same quantity of **TIME** regardless of the move.

The promoters simply **NEVER** say sell. It is constantly only buy and they have NO regard for the financial consequences of that advice. The very same strategy was pitched during the Great Depression by the stock brokers. The pitched the story that nobody can predict the future so the best thing to do was to average in. When the market collapsed by almost 90% into 1932, it took until 1954 to exceed the 1929 high – 25 years later. In gold they said the same nonsense after the 1980 high. It was just a pause. Paper currency was fiat and the national debt was exploding by 800% that decade. In fact, the national debt hit almost $1 trillion in 1981 (997.9b) and by 1999 it reached $5.656 trillion. Gold fell from $875 to $254. So where was this hedge against inflation or the fiat collapse? These things are great sophistry, but they only lead to staggering losses. There is a **TIME** to **BUY** and a **TIME** to **SELL** precisely as the Bible states in **ECCLESIASTES 3:1-15.** One of the Ten Commandments states clearly that Marxism (socialism) is a sin - "**You shall not covet your neighbor's house; you shall not covet your neighbor's wife, or his male servant, or his female servant, or his ox, or his donkey, or anything that is your neighbor's."** Both of these things are ignored by the metal promoters and by politicians. Only **TIME** will bring understand.

Electronic Money

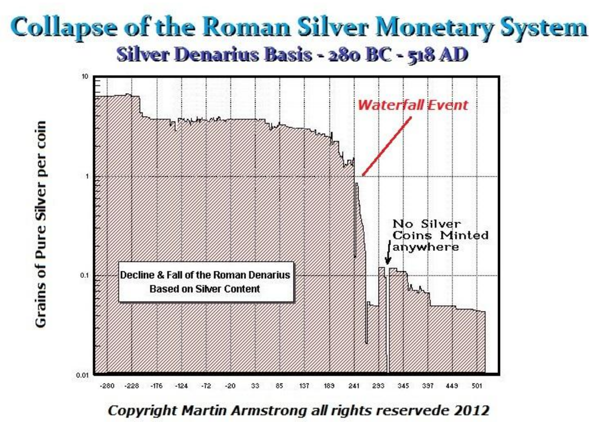
The real shocker has been the confiscation of assets in Cyprus and the assets of depositors at M.F. Global in New York. This is setting the stage for a massive **DEFLATION** not HYPERINFLATION. The Next Seizure Coming is already being talked about behind closed doors. Yet there was a Congressional hearing where the U.S. Consumer Financial Protection Bureau hinted that they feel to "protect" the citizens the government should confiscate and "manage" all pension funds right down to your 401K. All the information we are getting is this is very real. There is almost $20 trillion in pension funds. That would pay off the national debt at $17 trillion. These people are actually discussing a **FORCED** loan whereby they will take over all pension funds to "protect" us with bureaucrats who know nothing about managing money in charge. We are headed down the road of **CONFISCATION** of all assets – this is really **FASCISM** in full bloom. There is of course no constitutional authority for that but with no rule of law remaining, the courts will bless whatever the government needs.

These people will **NEVER** go quietly into the light. They are going to go screaming, kicking, biting, and shooting everything and everyone in their way. This is the problem moving to electronic money. Where do you put anything anymore? You cannot leave with pockets of gold. You cannot store it in a bank. The majority will remain stupid and think they really care. What kind of a world are we headed into? As I said before, when the day arrives after 2015.75, you will **PRAY** for **HYPERINFLATION**.

Europe will not bail out the banks. They are looking at depositors funding that and their view is that the depositor shares responsibility to know who they are giving their money to. Let's get this straight. Governments **HAVE ABSOLUTELY NO** intention whatsoever to return to a gold standard when electronic money prevents hiding anything. Why would they? That means they could no longer do as they like and they are enjoying electronic money because they see this as getting everything they ever wished for on Xmas – 100% tax collection. Whoever makes up this nonsense must be on drugs.

A European Commission assessment of what Cyprus needs to do as part of its European Union/International Monetary Fund bailout earlier this week showed it was set to sell gold reserves to raise around €400 million. It is true that Cyprus' gold sale in and of itself would be small. However, this is demonstrating that rather than reform, Europe will do what it has to in order to try to keep the game going. Gold today is a barbaric relic of the past and they have no intention of returning. That would collapse the way they run government perpetually borrowing year after year with no intent of paying anything off. This political-economic system is not fiat – this is sheer madness for there is no end-game here.

Europe is so heavily indebted that all it sees is trying to save the Euro immediately. They do **NOT** look at this long-term. Politicians never do that. The Eurozone nations such as Italy and Portugal could also find themselves under increasing pressure to put their bullion reserves to work. The socialists in France would not rule this out either. Then there is Slovenia, Hungary, and Spain standing in the line. It was sovereign sales that made the low in 1999. Cyprus has been a earthshattering event starting with the confiscation of assets. We are not talking about currencies collapsing into dust. We are looking at the collapse of the political infrastructure of Western Civilization. We are reaching the crisis point soon enough as was the case with Rome. It was not **HYPERINFLATION**. Government would not even accept its own money in payment of taxes. They assessed value in kind and began to confiscate property.



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The Short Dollar & The Debt Bubble

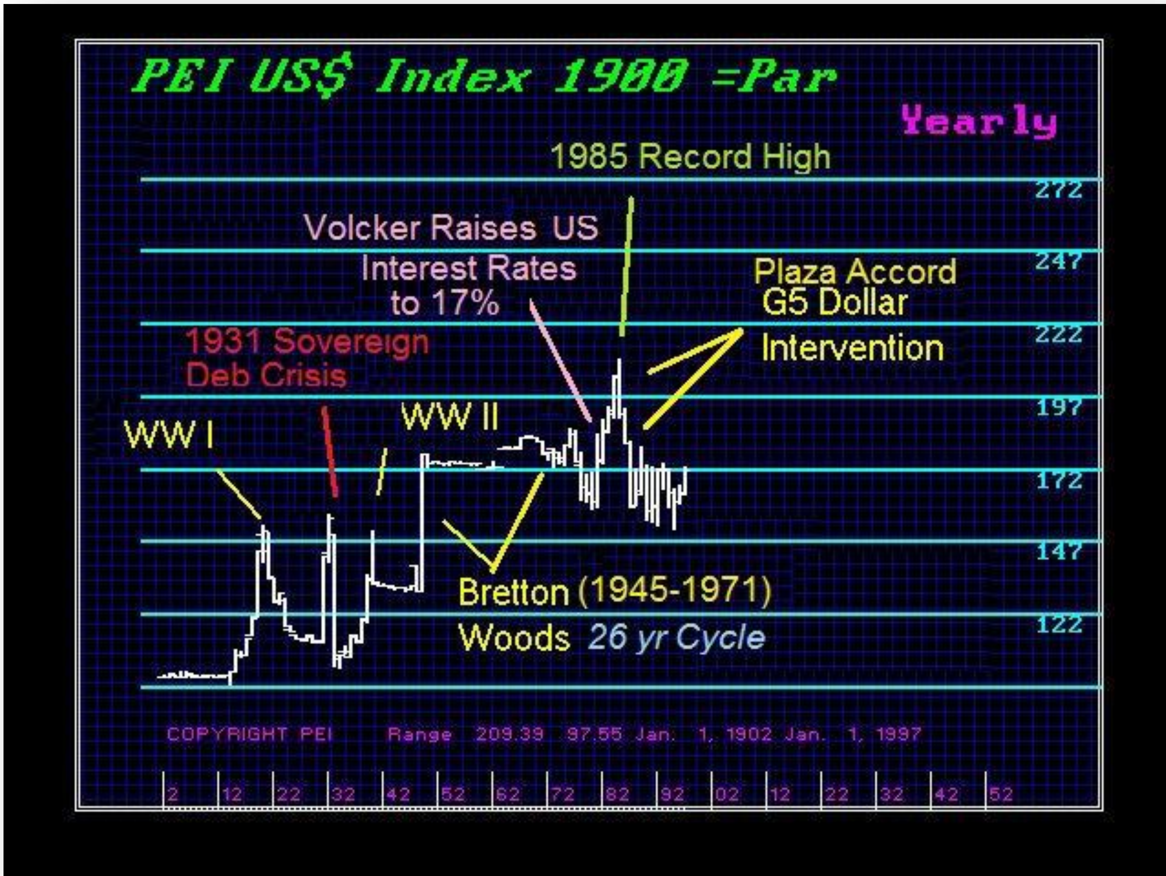
Everyone keeps touting the demise of the dollar as a fiat currency that it will collapse into dust. They seem to be unaware of the global private debt bubble in dollars where huge dollar short positions can easily reverse and cause a dollar short-cover rally. During the 1980's, banks in Australia sold Swiss loans on the basis that was the way to save massive interest with no view of the A$ whatsoever. Then the Swiss rallied and A$ fell and the losses to borrowers were massive. This even altered the capital flows confusing the hell out of economists. Back then, there were countless bankruptcies and it was good business for us for we were getting called in among Australia's top 50 companies all dealing with currency losses on a grand scale.

Well, the short dollar debt bubble has been rising globally and in some respects for perfectly rational reasons in Europe and especially in Asia. Lending and borrowing have been encouraged by super low interest rates and bogus analysts who kept swearing the dollar would move lower, gold would soar, so borrow in dollars and you will pay back with funny money. This attitude has created a global private debt bubble with everyone expecting to profit from a dollar collapse. Unfortunately, as the Euro presses lower because of massive structural problems where that currency could **NEVER** rise as a true **RESERVE** currency displacing the dollar due to the lack of a single national debt to absorb capital. The risks associated with a dollar rally are just off the charts.

Rising debt levels are a natural outgrowth of rising wealth that has been emerging in Asia. As economies advance, financial sectors become more advanced and debt tends to increase. Nevertheless, there are reasons to be concerned about what's going on in Asia. These economies are requiring more debt to keep going and privately have been following the West down the primrose path of financial indebtedness.

Asia is not as economically healthy as its GDP growth rates suggest. There are growing debt problems with much of the debt in dollars. The economic growth is highly credit-dependent, which in fact provides leverage. Fundamentally, a dollar short-cover rally is a risk we must respect emerges from the cross currency borrowing that introduces massive currency exposure. The dollar has provided incredibly easy money conditions in the entire global economy. This extends far beyond the Fed's balance sheet and in fact, the Fed looks conservative compared to the rest of the world no less the ECB. Debt has the possibility to rise even further, as financial institutions are under pressure to lend money as evidenced in the USA with mortgage rates dropping below 4%.

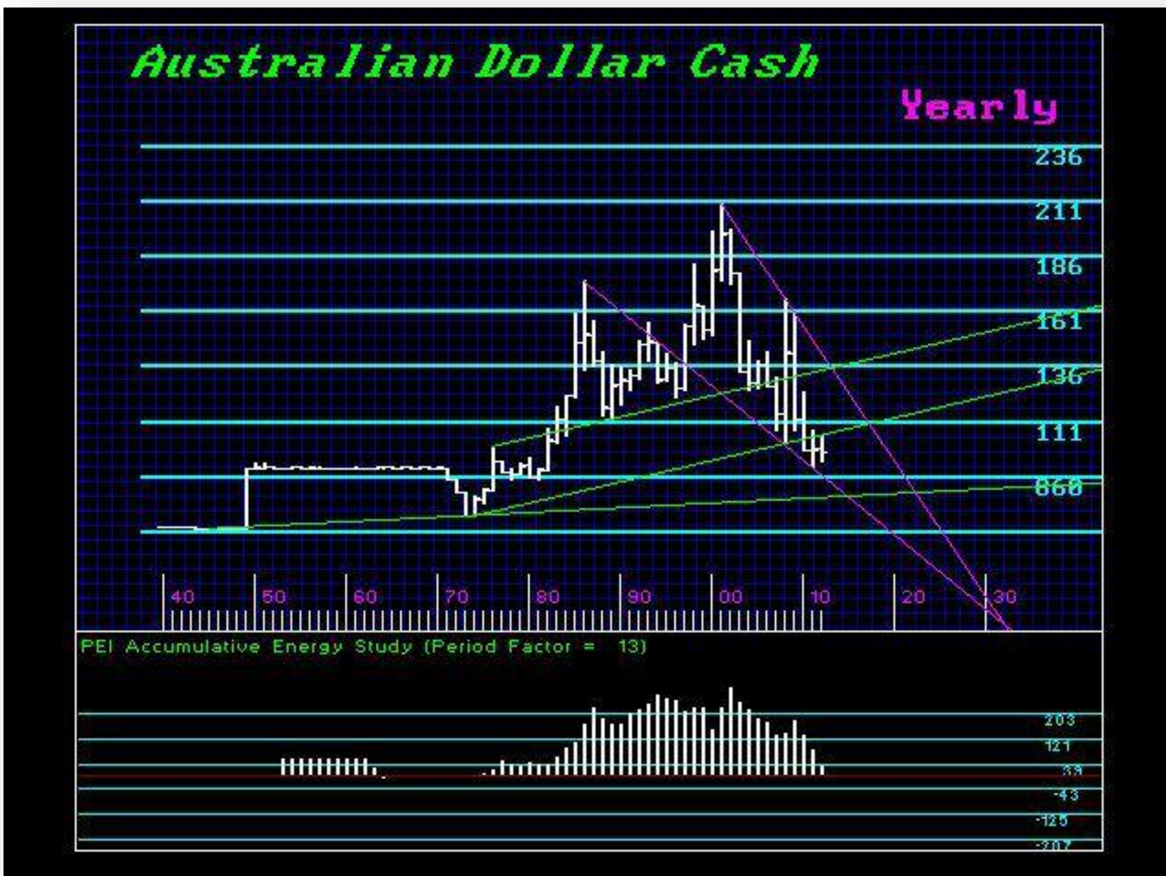
The analysis that constantly harp about the Fed and its quantitative easing being massively bearish for the dollar have only helped to create this dollar bubble that is the mirror image of gold. We are beginning to enter the more interesting stage as we await the final break in gold, but the shift in even more capital from Europe that is helping the US share market explode most likely going into a May high, is lining up with a Euro low initially also in May.



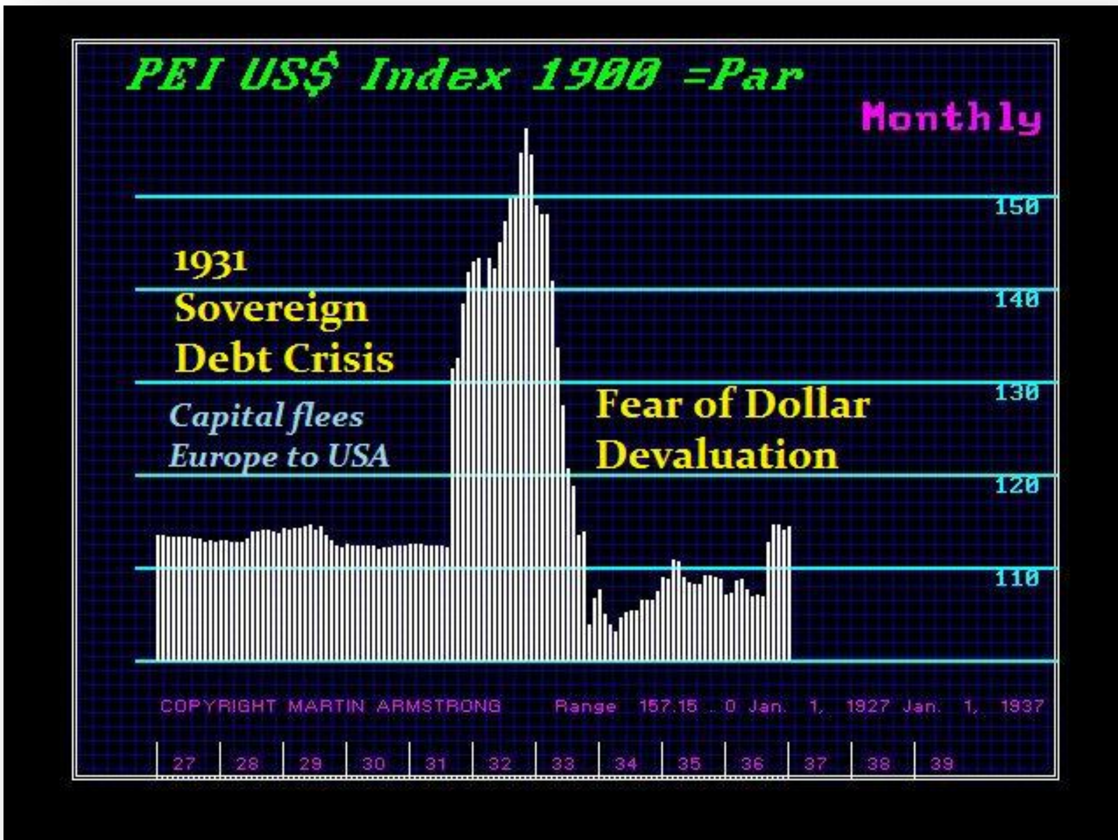
The dollar rise into 1985 was similarly fueled by massive dollar bearishness and gold promoters swearing new highs were around the corner. In 1980, the US national debt hit $1 trillion when gold hit $875 and the Eurodollar deposits also reached $1 trillion. Europeans were convinced as all the press there touted the way the USA would get out of its debt bubble was to create a two-tier dollar with green ones still domestic and red ones for Eurodollars. This belief led to huge capital outflows from Eurodollar deposits that collapsed by 50% going into 1985 shifting to domestic dollar deposits that they believed would be worth more. As the bearish dollar view expanded, the dollar rose even further.

This is what has taken place in recent times. The cry that the dollar will collapse because of Fed quantitative easing has been used to both sell gold and dollar loans. The Fed's $3 trillion expansion was merely offset by the near $6 trillion in capital contraction by the deleveraging. Hence, the net effect for **QE1, QE2**, and **QE3** has utterly failed to produce the hyperinflation that the majority has been forecasting.

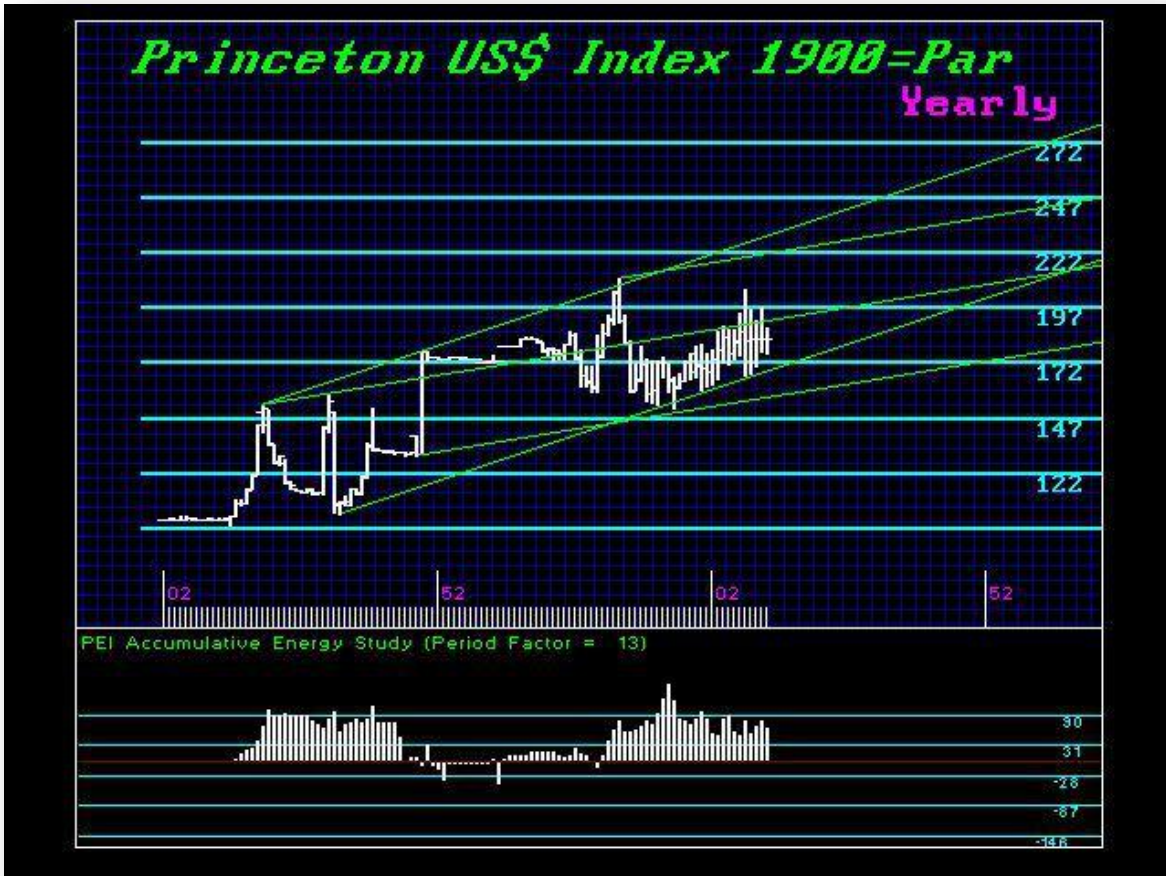
This expansion by the Fed helped create a gold rally, but more significantly, it created a short dollar bubble in debt on a global scale that will cause a dollar rally which will shock the borrowers just as the Australians who were borrowing in Swiss. The extensive short dollar positions through dollar loans counting on its demise, is enough fuel to cause the dollar rally. This is being egged on by the stupidity in Europe at the ECB over this whole Cyprus deal. As geopolitical concerns also rise in Japan with North Korea threatening everyone, the dollar is poised to move higher there. In Britain, the economic decline continues and we may even see negative growth rates there as they become also hunters of the rich and applying their tax laws internationally. The Swiss pegged their currency to the Euro to try to fend off capital flight there but with Russia pissed off over Cyprus, the safest bet is the dollar.



In Australia they called it ***"the economic equivalent of Mission Impossible"*** where their burgeoning foreign debt problem was accelerated by a government that did not understand capital flows any more that they do today or most conventional analysts still stuck in the Bretton Woods era of increasing money supply must be inflationary ignoring international trends. The Australian Hawke Government at the time claimed to have the answer by tight monetary policy and high interest rates. But the loans were in Swiss francs. The more they raised interest rates, the greater the A$ rose and this increased the losses in foreign loans. The current account deficit rose because what was included in that is interest payments. The Australian government totally screwed up everything because they were clueless. Meanwhile, academics are focused intensely only on domestic models trying to apply random walks and market efficiency concepts unable to look at anything else like a 12 year old boy who sees his first nude woman unable to even blink.



So hang on to your seat. The press, the government, the herd of domestically focused analysts, and most spellbound economists have all no clue what has been created because they do not look to the horizon and do not understand the accounting system governments are using in any event. As the dollar rises, Washington will call it a currency war, raise interest rates to discourage dollar loans, engage in protectionism, and this will create a feed-back loop sending the currency higher as was the case with the A$ and the Great Depression. Then we have the **Sovereign Debt Crisis** on top of this mess. So for all those touting the demise of the dollar, the majority are always wrong because that is the fuel that drives the markets. The majority **MUST** be wrong to create the swings within the economic pendulum. So don't worry, be happy, we need those people to make money and survive.

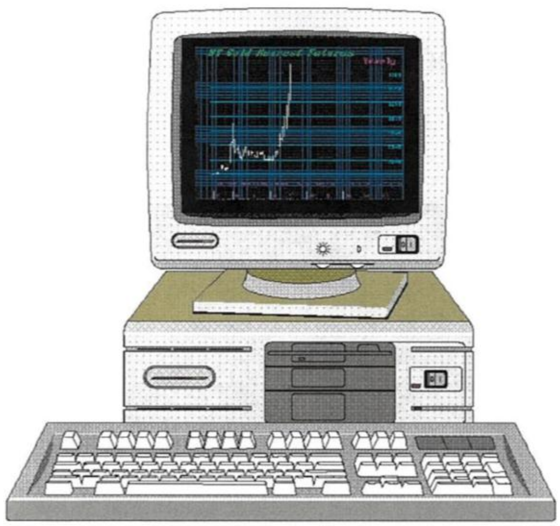


When we look at our Dollar Index 1900=Par, we see a starkly bullish chart. The dollar has remained within the uptrend channel for the last century. It has never closed out of it yet. The secondary channel created from the World War I and 1931 high will provide the major technical resistance above the 1985 high when they formed G5 to manipulated the dollar lower creating the 1987 Crash & 1989 Japan Bubble. Even our Energy Model shows the dollar is **FAR** from over-bought and we can see the flat-line created by Bretton Woods for a brief shining moment. It certainly appears that the US dollar will befuddle everyone as it did before as with the A$. We are looking at record highs **ABOVE** that of 1985 before this flips. So just as during the 1980-1985 period when dollar bearishness was at its height yet the dollar rose, we are looking at a similar situation here once again.

Both economics and geopolitical trends are conspiring to produce a strong dollar that the majority will never understand until it is too late mumbling - ***But the Fed increased the money supply!*** Yes – there is also the other side of that coin, it is called **DEMAND!** The gold promoters deny every decline never acknowledging what took place always blaming some dark force. Every rally, however, is real – gold never the declines. This is a not analysis – it is propaganda.

PRINCETON ECONOMICS

Research Institute



WARNING

THE FOLLOWING SECTIONS WERE WRITTEN BY THE COMPUTER WHICH HAS NOT YET BEEN FULLY TESTED.

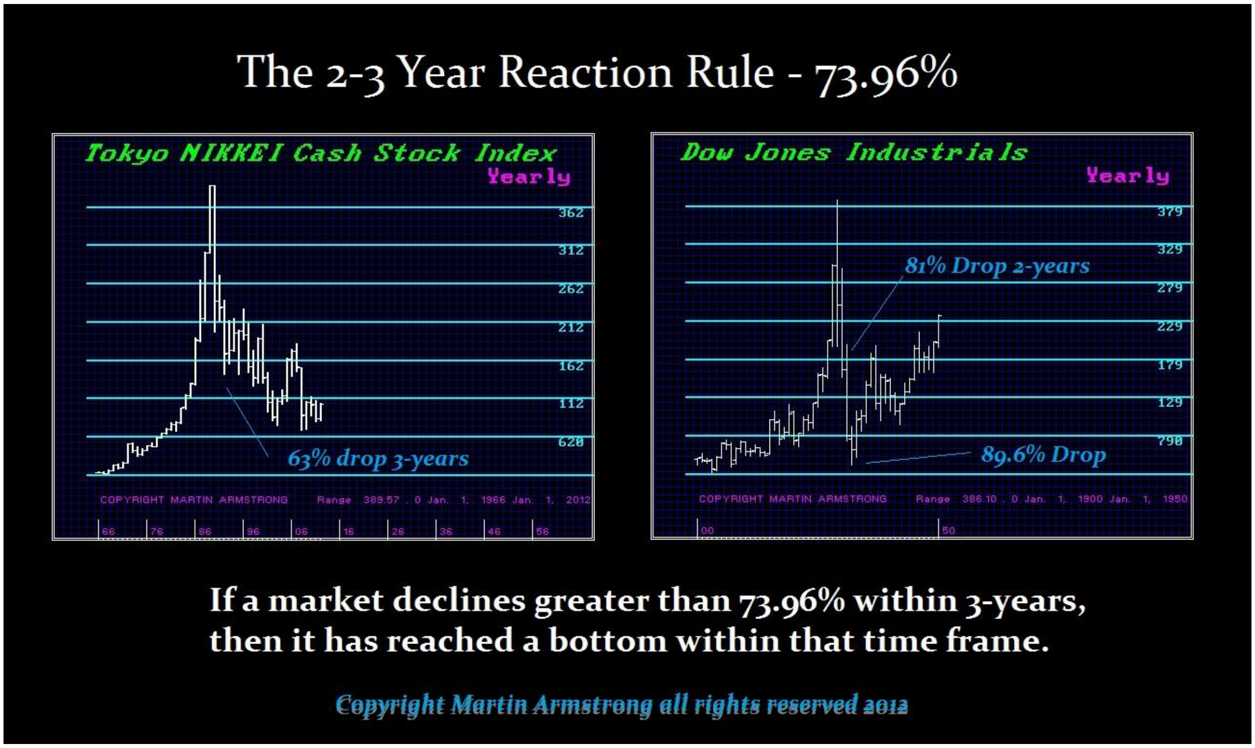
ANY TRADING POSITIONS IT STATES HAS TAKEN ARE HYPOTHETICAL AND DO NOT REPRESENT ACTUAL TRADING.

A TECHNICAL OUTLOOK FOR NY GOLD

Human Overview

When we look at gold we cannot do so with our mind and eyes blind to the world around us. We are in the middle of a major economic crisis of untold proportions. Either we go into a full-blown meltdown that will be coupled with civil unrest if not spontaneous revolutions, or we move toward major economic reform that involves creating a whole new world of currency. There is no choice any more. The politicians refuse to comprehend that this time they have to admit they were wrong or they will be dragged by their hair from their ivory towers and will be lucky to escape with their heads intact. This is a debt crisis fueled by a currency crisis. There simply is no chewing gum, rubber band, or scotch tape that will this mess together much longer.

Princeton's long-term outlook recognizes that the current bearish trend in NY GOLD may reach a conclusion during 2013 with a potential to extend on an intraday basis into the 2015. Either way, the bulk of the decline is likely to take place during 2013. An extended decline beyond 2013 would be indicated by a year-end closing below 1310. A mere closing below 1434 would also keep gold in a bearish mode at least into 2014. The key support lies at the $1058 level down to $875-907. Nevertheless, as long as $688.4 holds on an annual closing basis, then the broader long-term bull market will remain in motion for the years ahead. Assuming that a 2013 low holds, then we should see the next high may form during 2017 or even perhaps during 2020. If we see an extension into 2015 for either the intraday low or the lowest annual closing, then we may see an abrupt panic to the upside for 2017 but that should not be the end of the rally.

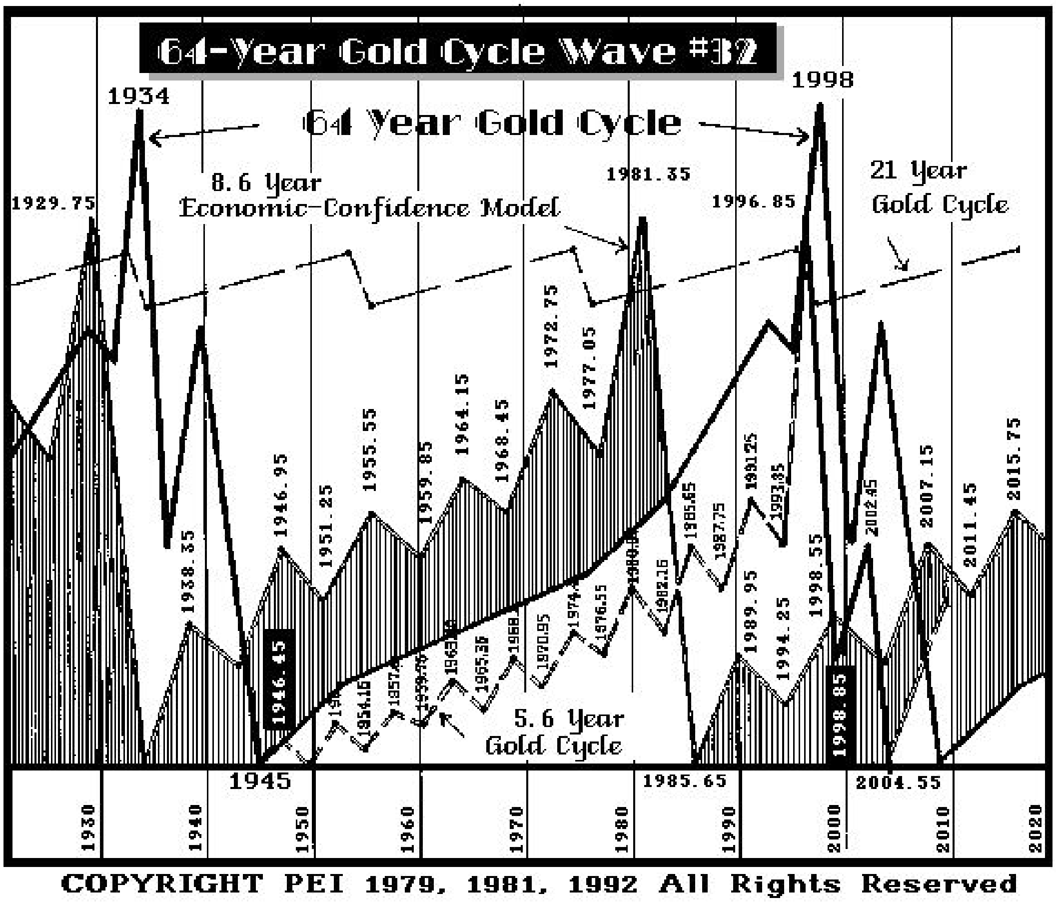


From a technical trading perspective, there has always been a significant difference between a change in trend and a mere reaction. Bear markets are defined by lengths of time that are equal to or greater than 5-years. Reactions are 2-3 years in duration but can dictate the magnitude of the change in trend since the bulk of any decline is still confined to the first 3 years. However, there is an exception to any rule. If the reaction is greater than a 73.96% (8.6^2) drop from the high, then it is possible to end the bear market within the reaction time frame. This is important to comprehend if we are looking at the future for gold from the 2011 high.

For example, the first dramatic 3-year collapse in the Nikkei 225 was a 63% drop 38957-14194. The market consolidated for 4 years thereafter but could not exceed the high of that reaction low. This was a clear sign of profound weakness. The Nikkei fell into the lowest close 13 years from the high in 2002, penetrated that low intraday in 2003, rallied for a 3-year reaction with the highest closing without electing any bullish reversals, and then plummeted into the lowest closing 22 years from the high with the intraday low 23 years being 2012. Then there is the US shares market collapse from September 1929 into July 1932 fulfilling the 34.4-month cycle (4 * 8.6), completing the bear market within the 3-year reaction time frame. That drop was 81% within the first 2 years 386-71, and then the 3rd year completed the 89.6% drop 386-40. That exceeded the 73.96% rule within the first two years warning the event would be concluded by the 3rd year.

Look at gold for example. Gold peaked at $875 on spot in 1980 and fell to $293.50 going into 1982 accomplishing a 66.45% decline in 29 months. This was the bulk of the overall decline. That did exceed the Fibonacci number of 61.8 but it did not exceed the 73.96% rule. That mean there would be a continued decline for 5 years and a bear market was unfolding. Nonetheless, the bulk of the decline always takes place still within that first 3-year reaction time period despite the fact that the 1985 low was only $280.50 in 61 months and the 19-year low came in at $254 in August 1999 in 235 months. The collapse in gold between 1980 and 1982 was within the 2-year reaction. The 3rd year was a counter-reaction high into 1983. That was the kiss of death warning that an inability to rally beyond 1983 pointed to a 5-year bear market, which it did unfold on point for 1985. Gold then rallied with the decline in the dollar, but it was not making new highs in yen or D-Marks. That signaled lower lows ahead and everything was clearly pointing to 1999.

A prolonged decline in gold was self-evidence given the progressive rise in the dollar. Our computer was forecasting a collapse in the pound to par by 1985. Indeed, the British pound fell from $2.45 in 1980 to $1.03 by 1985. There was no way gold could withstand a rise in currency value when it was simply a commodity. During a recession, the currency rises in purchasing power so all assets must decline. During a boom cycle, the purchasing power of the currency declines as assets rise. This is simply the way things function. Therefore, the broad spectrum of markets was simply set-up against a rise in gold, which follows the commodity cycle except during periods of a collapse in confidence in government.



Add 31.4 years to 1968 and we arrive at 1999 right on target. Add the long-term gold cycle of 64 years to 1968 and we arrive at 2032, the end of this current Private Wave. Since 1999 produced the low, 2032 should produce the high. Add 31.4 years to 1934 and the confiscation of gold and we arrive at 1965 – the first year of coinage in the USA after the withdrawal of silver as "lawful money". Add 64 years to 1934 and we arrive at 1998/1999. Add 64 to Nixon's 1971 closing of the gold window and we arrive at the Pi (π) Target after 2032 (3.14 years later) being 2035. Because gold has been at times money rising when assets decline and falling during inflationary booms, cycle inversions become common while the turning points remain unchanged. Hence, 1934 and 1998/1999 64 Year Cycle produced the major low whereas the 1934 was the low and beginning of the gold standard fixed at $35.

1964 / 1965 United States Silver Demonetization

This was the last year that silver was used to mint coinage in the United States whereby the silver content was 90% now valued at $2.1.

A blend of copper and nickel covering a copper core in this case. The value of the metal in this coin is now 2 cents.

Executive Order 11110 was issued by U.S. President John F. Kennedy on June 4, 1963. This executive order delegated to the Secretary of the Treasury the President's authority to issue silver certificates under the Thomas Amendment of the Agricultural Adjustment Act, as amended by the Gold Reserve Act. The order allowed the Secretary to issue silver certificates, if any were needed, during the transition period under President Kennedy's plan to eliminate silver certificates and silver from the coinage.

On November 28, 1961, President Kennedy halted sales of silver by the Treasury Department. Increasing demand for silver as an industrial metal had led to an increase in the market price of silver above the United States government's fixed price. This led to a decline in the government's excess silver reserves by over 80% during 1961. President Kennedy also called upon Congress to phase out silver certificates in favor of Federal Reserve notes. The last issue of Silver Certificates was that of 1957 Series.

The 1963 series began the "Legal Tender" issue omitting any reference to silver, which had been defined as "lawful money". This was then followed by the first crack in the Gold Standard in 1968 whereby a two-tier market began with gold trading in London at a free price, where the member nations maintained the Bretton Woods fixed rate of gold at $35. Hence, the economic pressure began during the early 1960s. JFK began the process that led to the free-floating exchange rate monetary currency system of today.

Everything is interlinked and performs on a long-term basis much more orderly than the short-term. The most important date in gold is actually 1968 not 1971 when Nixon closed the gold window. Why? Because that is when gold began to trade in London beginning the two-tier market **Public & Private**. It was the start of the free markets and the first crack in Bretton Woods since the government maintained $35 officially but gold was free to float in the private market. Therefore, 1968 when we first adopted a **Two-Tier** gold market and London began freely to trade gold; the official fixed price was $35. That year 1968 saw gold trade between $42.60 and $35.10. Gold rallied into 1969 reaching the whopping $43.70 level in March 1969.

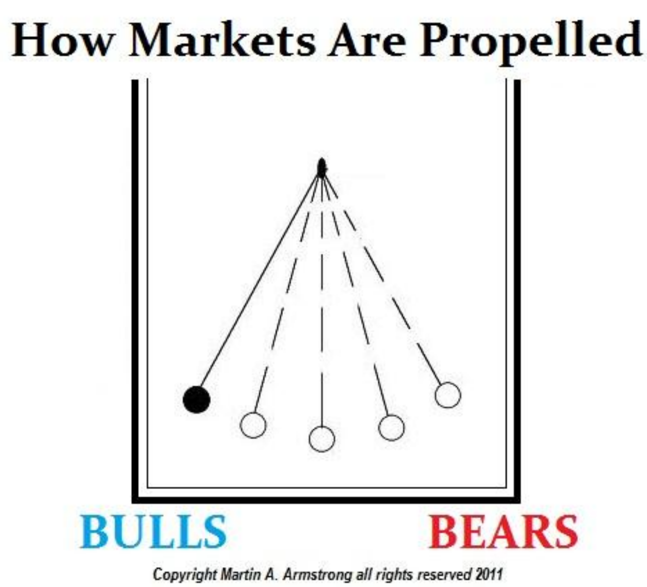
Thereafter, gold declined falling to **BELOW** the official fixed rate reaching $34.70 in January 1970 – 8.6 months latter!

Here we were with gold trading **BELOW** the Bretton Woods fixed exchange rate of $35. Anyone who thought gold would rally was wiped out when it did the unthinkable – fell **BELOW** the government price. This is the classic **FALSE MOVE** that cleans out the remnants so there is enough energy to take off in the opposite directions. Then 19 months later, the pressure had built up so much that Nixon was forced to close the gold window.

The major support for gold during 2013 lies at 1035-1045 based on our yearly models. Initial support lies at 1310 level and a break of this area will be highly beneficial suggesting that indeed we may have a major low. The critical long-term support lies down at 1158 and 907. A year-end closing for 2013 **BELOW** 1310 will warn that we will eventually see lower lows. Nonetheless, the 1310 level will remain as a vital pivot point throughout the next few years. A closing **BELOW** 1310 for 2013 will cause this level to become overhead resistance. Additionally, the 1434 level will also be critical and a closing **BELOW** this area will cause this to become resistance followed by 1530-1570. If we see a consolidation into 2015, then look for any rally back **ABOVE** 1434 as the signal that a rally is starting going into at least 2017.

From a technical perspective, when a market breaks out, it typically moves back to retest the broad channel from which it erupted. In this case, we are looking at the top of the major channel, which had defined the trading range initially coming out of the collapse of Bretton Woods attempt to freeze gold at a fixed value while everything else floated. What people do not appreciate is the market **ALWAYS** makes a **false move** in the opposite direction before it actually adopts the "real" trend. This is how the energy is created for the opposite move by convincing everyone either the rally will continue or the decline is inevitable. The problem we face is the excessive rhetoric of always **BUY-BUY-BUY!** The constant denial of any decline as being false caused by paper shorts while each rally is always portrayed as **REAL** vindicating their theories of course, has created unfortunately a herd of unsophisticated investors

waiting for the end of the world. This excessive bullishness is typically the death knell of any bull market signaling that a reversal of trend is not possible until the bullishness is squeezed out of it. This strongly suggests that gold must crack the 1310 area and test the 1158 or the more extreme target of 907-875 before we turn around.



The lesson taught here by this entire move is that the **UNTHINKABLE** takes place to wipe out those that are so convinced it would be impossible for gold to decline, and then **AND ONLY THEN** will the **REAL** move take place. Those who believe gold cannot decline **BECAUSE** of the Fed or whatever do not comprehend how markets move and **ALWAYS** push everyone to the absolute limit before changing trend.

The Computer Written Report

TECHNICAL OUTLOOK FOR

NEW YORK COMEX SPOT GOLD

YEARLY LEVEL

This year our indications on the Yearly level in NY GOLD, are bullish on both the short-term momentum and trend according to the system model. We also find that intermediate indicators are in a bullish position. This suggests that 10450-10390 is an important level of intermediate support during 2013. On the broader perspective, the Cyclical Strength Model is currently bullish. Everything on the long-term models, including momentum and trend, is still in the bullish mode on the Yearly level. Therefore, support appears to rest under the market at the 10450, 10390, followed by 6884. Resistance, however, is largely technical starting at 14340 for especially year-end closing. For year-end, a closing below 13100 for 2013 would warn we could still see lower lows into 2014 with the maximum downside target being the 9070-8045 level.

Our long-term outlook recognizes that the current bearish trend in New York COMEX Spot Gold may reach the bulk of the decline during 2013 with a potential to extend on an intraday basis into the following year 2014 leaving 2013 as the lowest yearly closing. There remains the potential to extend the consolidation into 2015, with any resumption of the uptrend beginning thereafter into 2017. Nevertheless, as long as 680.80 holds on an annual closing basis, then the broader long-term bull market will remain in motion for the years ahead. Assuming that a 2013-2015 low holds, then the next high may form during 2017 or even perhaps moving into 2025.

The International Perspective

Whether or not gold is TRULY breaking out and beginning a new bullish phase depends not merely on our model objectives in terms of dollars, but more importantly in terms of a basket of world currencies. Any rally that takes place in ONLY one currency is purely a false rally. True bull markets have always, and without exception, taken place when the underlying commodity, stock, bond or index rises across the board in all forms of currencies. In the case of gold, this is the sole distinguishing factor between the 1976-1980 rally and all others since. In all cases, gold rose in terms of dollars and declined in terms of international currencies ever since the 1980 high. If gold is honestly breaking out, then it MUST accomplish new highs in all currencies. For now, gold remains bearish in US dollars. It will rise in most other currencies or decline less, but the bull market will reemerge when gold begins to rise in US dollar terms after 2015.

This year our indications on the Yearly level in New York COMEX Spot Gold, are bullish on both the short-term momentum and trend according to the system model. We also find that intermediate indicators are in a bullish position. This suggests that 104450 area during 2013. On the broader perspective, the Cyclical Strength Model is currently bullish. Everything on the long-term models, including momentum and trend, is still in the bullish mode long-term on the Yearly level. Therefore, support appears to rest under the market at the 143400, 122700, 104450, 103400, 90700, 87500, and 68000 levels. Resistance, during 2013 152670, 156600, and 167500 levels.

YEARLY REVERSAL SYSTEM

At this time, the Major Yearly Bearish Reversals are 130750 and 68000. Thereupon, only a yearly closing below 68000 will signal that an immediate downtrend could unfold leading to a renewed bear market ahead. However, any decline that hold that level and bounces off it will signal a resumption of the uptrend. For now, our Major Yearly Bearish Reversal at 130750 will signal that we have a consolidation phase ahead possibly into 2015 until the dollar declines. Thus, only a yearly closing below 130750 will signal that a downtrend is likely to unfold near-term.

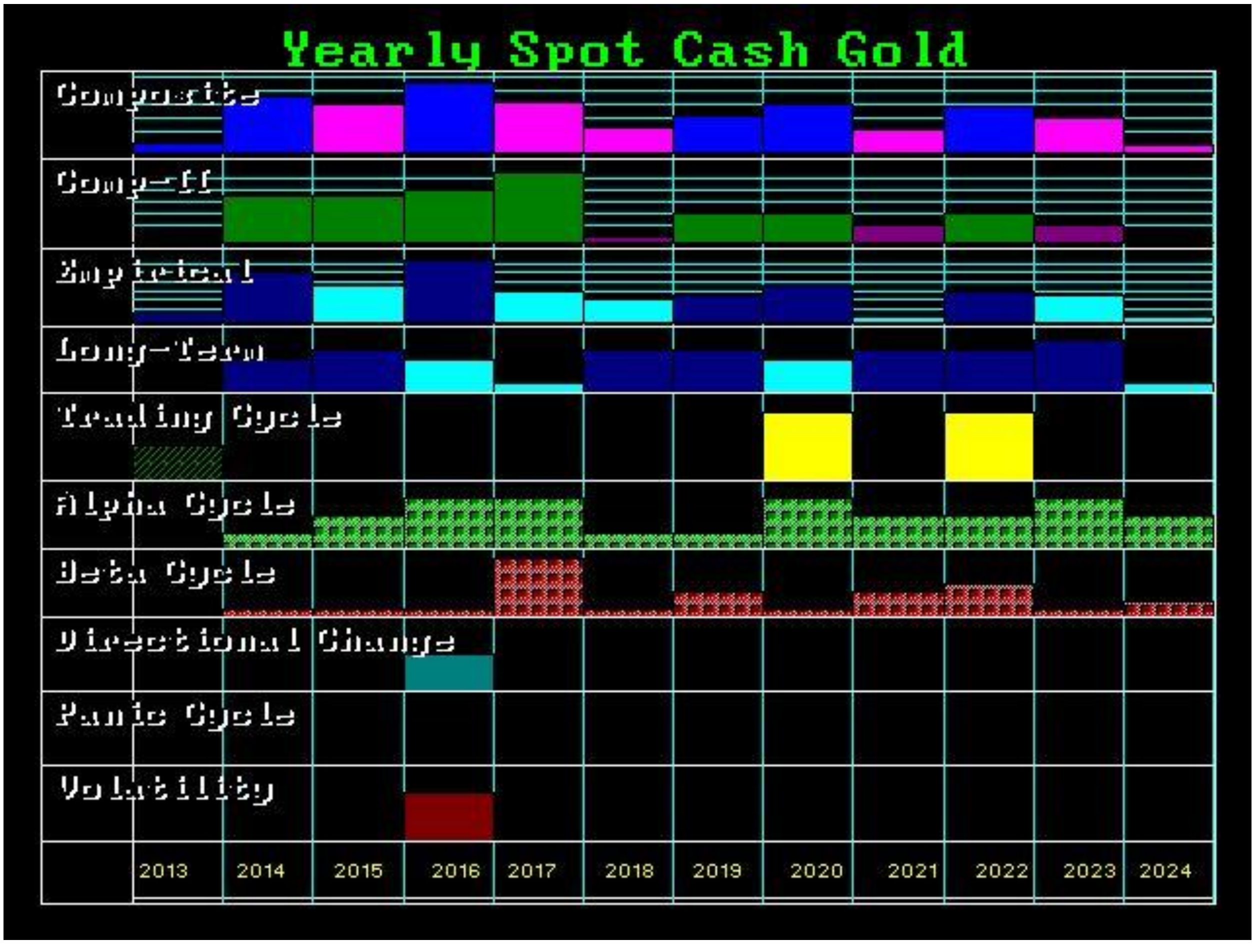
New York COMEX Spot Gold remains in an extremely strong position long-term. As long as this market holds ABOVE 68000 on an annual closing basis, then new record highs are still possible. We do have a Minor Yearly Bullish Reversal at 143400 and we would need a closing above this level for 2013 to suggest that perhaps the low is in place for now. Our Yearly Bullish Reversals stand above the market at 192100 and 230000. A yearly closing above 192100 will signal that this market should continue to advance to new recent highs to test the 230000 level. An annual closing above 230000 will signal a move up to the next key area in the 480000-530000 zone.

Yearly Reversals

Major Bullish 192100 230000
Minor Bullish 1434000
Major Bearish 130750 68000

YEARLY COMPUTER RECOMMENDATION

On the Yearly level of our model we remain LONG 6 positions. The last LONG position was taken on the close of 2008 at 88360. Our general target objective would be to Sell new high at 500000 by 2024-2032. We would use a PSXCO at 68000 on a Yearly closing basis OCO with an IDPSX at 51690. Reversing into a short position should be considered if 68000 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if 2013 closes below 130750 for 2013.



YEARLY TIMING

On our empirical models, the ideal primary target for the next minor cycle low on the yearly level, remains 2015, particularly since our last target objective of 2011 produced a high at 192080 in New York COMEX Spot Gold. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next major cycle target leading into a high for 2017 possibly extending into 2024-2032. Thereafter, a re-test of support should develop 2013-2015 which is the next key target objective. In the event that the high of 2011 is penetrated on an intraday basis prior to 2015, or the key Yearly Bullish Reversals are executed, then a cycle inversion would be implied.

A cycle inversion would also be implied if the high of the previous year were exceeded before 2015. Therefore, under a cycle inversion scenario, if 2015 unfolded as a high instead of a cycle low, then all subsequent targets would also invert causing the next cycle low to unfold during the 2017.

Nevertheless, as it appears currently, 2013-2015 should produce a minor cycle low followed by a major high in 2017 possibly extending into 2024-2025 to 2032. Therefore, the next major turning point is due will be the 2017 which will be followed by another major target due 2024-2025 in the period ahead.

Employing composite cycle analysis, the key years for a turning point in New York COMEX Spot Gold will be 2020 and 2032.

Our Directional Change models indicate that a turning point is due the year of 2016. Our Panic Cycle Models suggest that higher volatility is due the year of 2017. Our Volatility Models show high volatility in 2015, 2020-2021, and 2023-2024.

Yearly Turning Points:

(2013-2015), 2016 (2018-2019), 2022

YEARLY TECHNICAL OUTLOOK

RESISTANCE: 20923
SUPPORT: 15893 14468 7146

TABLE #1

Yearly Technical Projections

2013...	66063	75740	105660	137962	158930	178480	198727	219880	227701	364799
2014...	69436	79920	112333	141336	163110	182550	202201	233577	233780	373202
2015...	72810	84100	119007	144709	167290	186620	205574	239453	247680	281605
2016...	76183	88280	125680	148083	171470	190690	208948	245329	261580	390008
2017...	79557	92460	132353	151456	175650	294760	212321	251204	275480	398411
2018...	82930	96640	139027	154830	179830	198830	215695	257080	289380	406814
2019...	86304	100820	135700	158204	184010	202900	219068	262956	303280	415217
2020...	89677	105000	152373	161577	188190	206970	222442	268831	317180	423620

Yearly Indicating Ranges

Date	**Momentum**	**Trend**	**Long-Term**
2013	68080-26430	103390-31740	104430-38820
2014	80150-25580	122700-29600	130770-39130
2015	104430-27720	143140-35000	152670-35590

YEARLY PATTERN RECOGNITION

If this year closes below 155390, then the upward momentum has been lost which implies that a temporary top is in place and a near-term retest of support should begin.

2013 MOMENTUM INDICATORS HLC 171620 129290 155390

QUARTERLY LEVEL

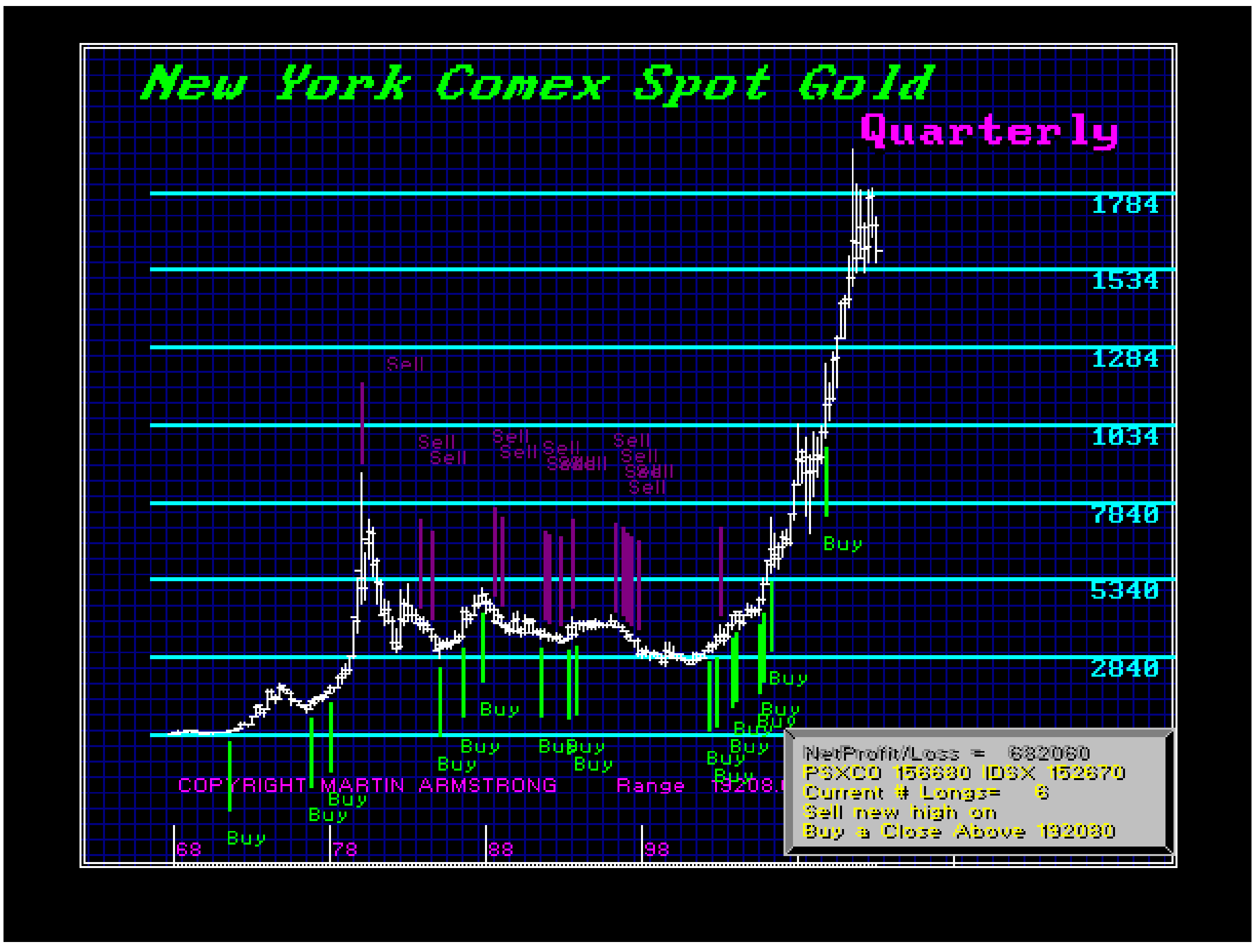
QUARTERLY REVERSAL SYSTEM

At this time, the Major Quarterly Bearish Reversals are 148000, 130900, 111170 and 68000. Accordingly, only a quarterly closing below 68000 will signal that an immediate downtrend could retest long-term support. On a short-term basis, our Minor Quarterly Bearish Reversals are found at 152500, 141320, 86410, 63990, 56420, and 51760. Consequently, only a quarterly closing below 86410 will signal that an immediate downtrend should unfold thereafter.

Our Quarterly Bullish Reversal stands above the market at 193000 whereas the former high was 192080. A quarterly closing above 193000 will signal that this market should continue to advance to new recent highs reaching the 230000 level.

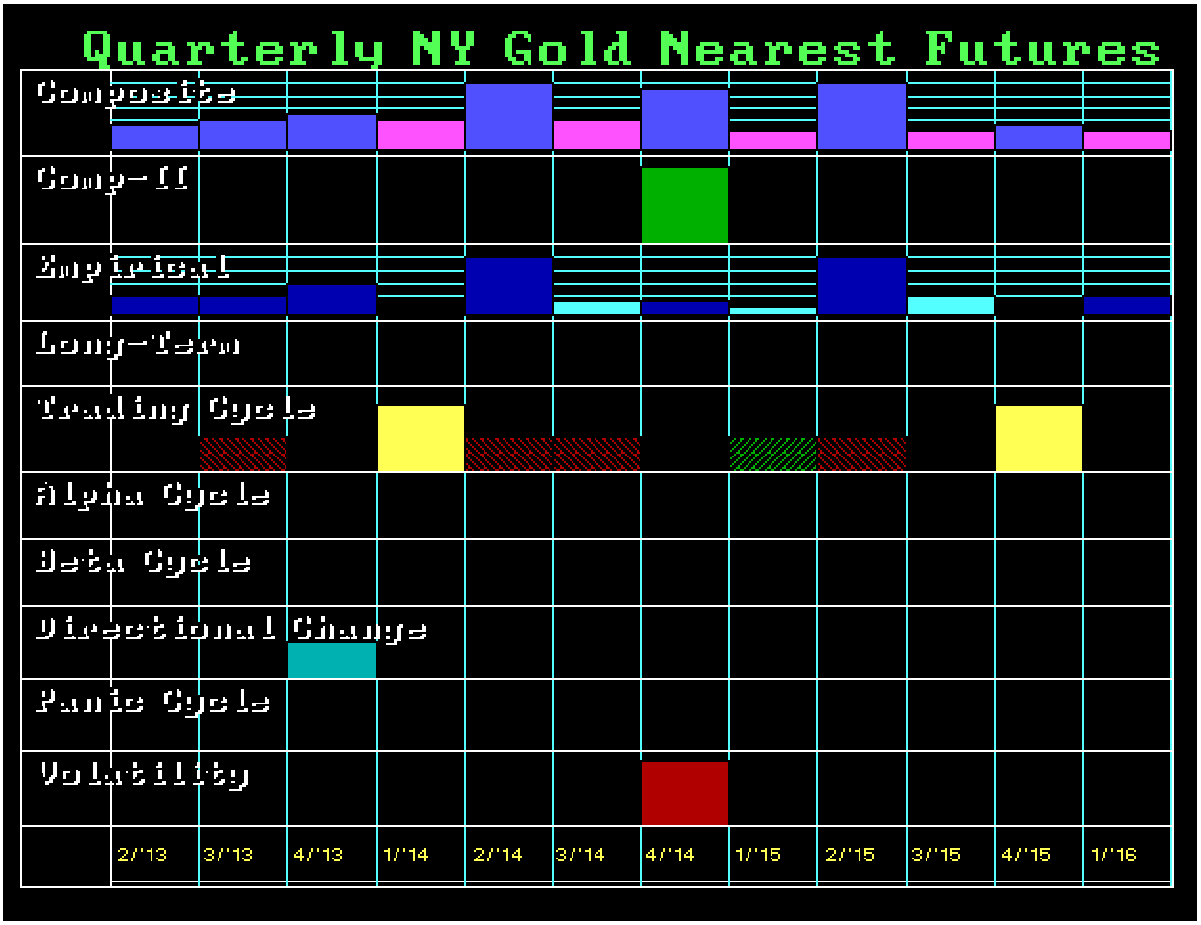
Quarterly Reversals

Major Bullish 178700 193000
Minor Bearish 152500 148000 141320 130900 111170 86410
Major Bearish 148000 130900 111170 68000 63990 56420 51760



QUARTERLY COMPUTER RECOMMENDATION

On the Quarterly level of our model we remain LONG 6 positions. The last LONG position was taken on the close of the 4th Quarter 2009 at 109520. Our general target objective would be to Sell new high at 230000 level. We would look to COVER all positions using an MIT just below the 230000 price level. We would reenter a long position by buying a Quarterly close above 230000. We would use a PSXCO at 156680 on a Quarterly closing basis. Reversing into a short position should be considered if 148000 is penetrated on a closing basis.



QUARTERLY TIMING

According to our empirical models, the ideal primary target for the next cycle low on the quarterly level, remains 10/2016, particularly since our last target objective of 10/2012 produced a high at 179640.00 in New York Comex Spot Gold. If this new target objective is successful, we then expect to see a reaction in the opposite direction unfold on the next cycle target leading into 01/2017. Thereafter, a re-test of support should develop 04/2017 which is the next target objective. In the event that the high of 179640.00 is penetrated on an intraday basis prior to 10/2016, or the key Quarterly Bullish Reversals are executed, then a cycle inversion would be implied. A cycle inversion would also be implied if the high of the previous quarter were penetrated during the 10/2016. Therefore, under a cycle inversion scenario, it would then appear that 10/2016 should ideally unfold as a high instead of a cycle low and all subsequent targets would also invert causing the next cycle low to unfold during the 01/2017. Nevertheless, as it appears now, 10/2016 should produce a cycle low followed by a high in 01/2017 with a re-test of support come 04/2017. The ideal target where a major turning point is due will be the 10/2017 in the period ahead.

Using a composite of a variety of timing intervals, the key quarters for a turning point in New York COMEX Spot Gold will be 04/2019 and 04/2020.

Our Directional Change models indicate that a turning point is due the quarter of 10/2013.

Quarterly Turning Points:

(04/2013), (01/2014), (04/2014), (01/2015), (04/2015), (10/2015)

QUARTERLY TECHNICAL OUTLOOK

RESISTANCE: 17500
SUPPORT: 14545 13704 10486 7988

TABLE #2
Quarterly Technical Projections

04/2013...	35312	40432	70622	10012	17466
07/2013...	35312	40432	70622	86987	17217
10/2013...	35312	40432	70622	73850	16968
01/2014...	35312	40432	70622	60713	16720
04/2014...	35312	40432	70622	47577	16471
07/2014...	35312	40432	70622	34440	16222
10/2014...	35312	40432	70622	21303	15973

Quarterly Indicating Ranges

Date	Momentum	Trend	Long-Term
04/2013	155440-56420	156680-65000	178700-104430
07/2013	152670-60300	163520-68770	168390-111170
10/2013	155410-63990	155440-69420	169780-115560

2ND QUARTER '2013 MOMENTUM INDICATORS HLC 176040 158123 168023

MONTHLY LEVEL

NY GOLD on the Monthly level, our short-term momentum indicators are neutral. Short-term trend, on the other hand, is in a bearish posture. As far as the Monthly, we find that the intermediate indicators are bullish. This suggests that the 138050 level is where intermediate support will be found. On the broader perspective, the Cyclical Strength Model is currently neutral, but a closing beneath 132540 will shift this negative. Everything on the long-term models, including momentum and trend, is still in the bullish mode on the Monthly level. Therefore, support appears to rest under the market at the 114690, 108740, 100970, 94470, 89240 and 84720 levels. Resistance will be found residing above the market at 168490, 176940 and 179540.

MONTHLY REVERSAL SYSTEM

At this time, the Major Monthly Bearish Reversal is 146250, 138070, 115560 and 90480. Obviously, only a monthly closing below 90480 will signal that a real change in long-term trend is possible. Our model suggests that the Major Monthly Bearish Reversal lying at 115560 will be very critical in the support of this market. Additional Major Monthly Bearish Reversals are found at 123650, 104220 and 68080. It should be noted that one key reversal appears to be very important. We see that a monthly closing beneath 115560 may signal that a serious sell-off is likely to follow thereafter.

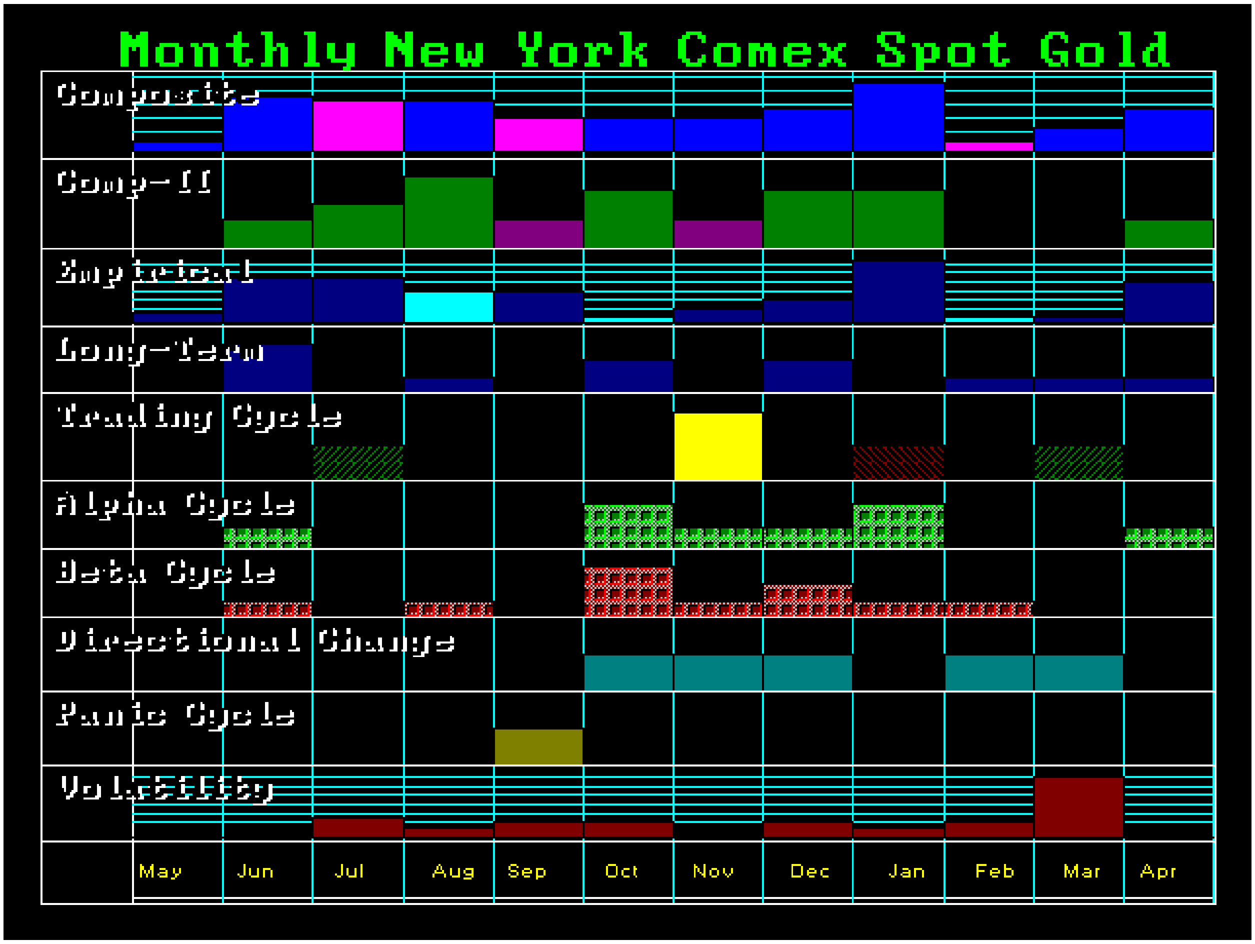
Right now, Major levels of our system models indicates that the Monthly Bullish Reversals exist at 169780, 172540 and 175500. Our Minor Monthly Bullish Reversal stands at 160330 and a closing above this level will signal that a retest of the 169780 area is likely.

Monthly Reversals

Major Bullish 17301 17577 17954 19243
Major Bearish 146250 138070 123650 **115560** 104220 90480 68080

MONTHLY COMPUTER RECOMMENDATION

On the Monthly level of our model we remain SHORT 5 positions. The last SHORT position was taken on the close of 04/2012 at 16672. Our general target objective would be to hold current positions as long as this remains below 17954 on a closing basis and 18100 is not penetrated intraday. We also see a technical objective for profit taking at the 115500 level. We would look to COVER all positions using an MIT just above the 9100 price level. We would use a PBXCO at 17956 on a Monthly closing basis OCO with an IDPBX at 18110. Reversing into a long position should be considered if 17954 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if new lows are established during 05/2013, 06/2013, 09/2013, 01/2014, 02/2014, 04/2014 or 11/2014.



MONTHLY TIMING

Looking at our empirical models, the ideal primary targets for turning points will be May 2013 June 2013, August 2013, October 2013, and January 2014. Ideally, each should produce the opposite effect. We do see rising volatility starting in September and a choppy last quarter. The major turning point will be January 2014.

The key month for a turning point will be 09/2014.

Our Directional Change models indicate that turning points are due the months of 10/2013, 11/2013, 12/2013, 02/2014 and 03/2014. Our Panic Cycle Models suggest that higher volatility is due the month of 09/2013.

Monthly Turning Points:
(05/2013), 06/2013, (10/2013), 01/2014, (02/2014), 04/2014

MONTHLY TECHNICAL OUTLOOK

RESISTANCE: 3331 3418 3422 3987 172942

SUPPORT: 139774 58370 8552

TABLE #3

Monthly Technical Projections

05/01...	8552	58370	13977	17294
06/01...	8552	58193	13902	17198
07/01...	8552	58017	13827	17102
08/01...	8552	57840	13752	17007
09/01...	8552	57663	13678	16911
10/01...	8552	57487	13603	16815
11/01...	8552	57310	13528	16720

Monthly Indicating Ranges

Date	Momentum	Trend	Long-Term
05/2013	163520-138070	168390-144860	168610-155410
06/2013	161650-141320	162600-152670	167050-156040
07/2013	157740-132210	160330-146250	164110-154660

MAY MOMENTUM INDICATORS HLC 163530 147886 154823

WEEKLY LEVEL

WEEKLY REVERSAL SYSTEM

At this time, the Major Weekly Bearish Reversals are 132900, 132000, 123300 and 119710. Therefore, only a weekly closing below 132900 will signal that an immediate downtrend could retest long-term support. This type of a closing would warn that traders should prepare for a potentially important change in trend. Nevertheless, an election of our Monthly Reversals will be the final confirmation that such a major change in trend has developed. The Major Weekly Bearish Reversals are found at 127050, 123650, 118580, and 113020 with additional reversals at 117680, 116600, 108480 and 107470. It should be noted that one key reversal appears to be very important. We see that a weekly closing beneath 119710 may signal that a serious sell-off is likely to follow thereafter.

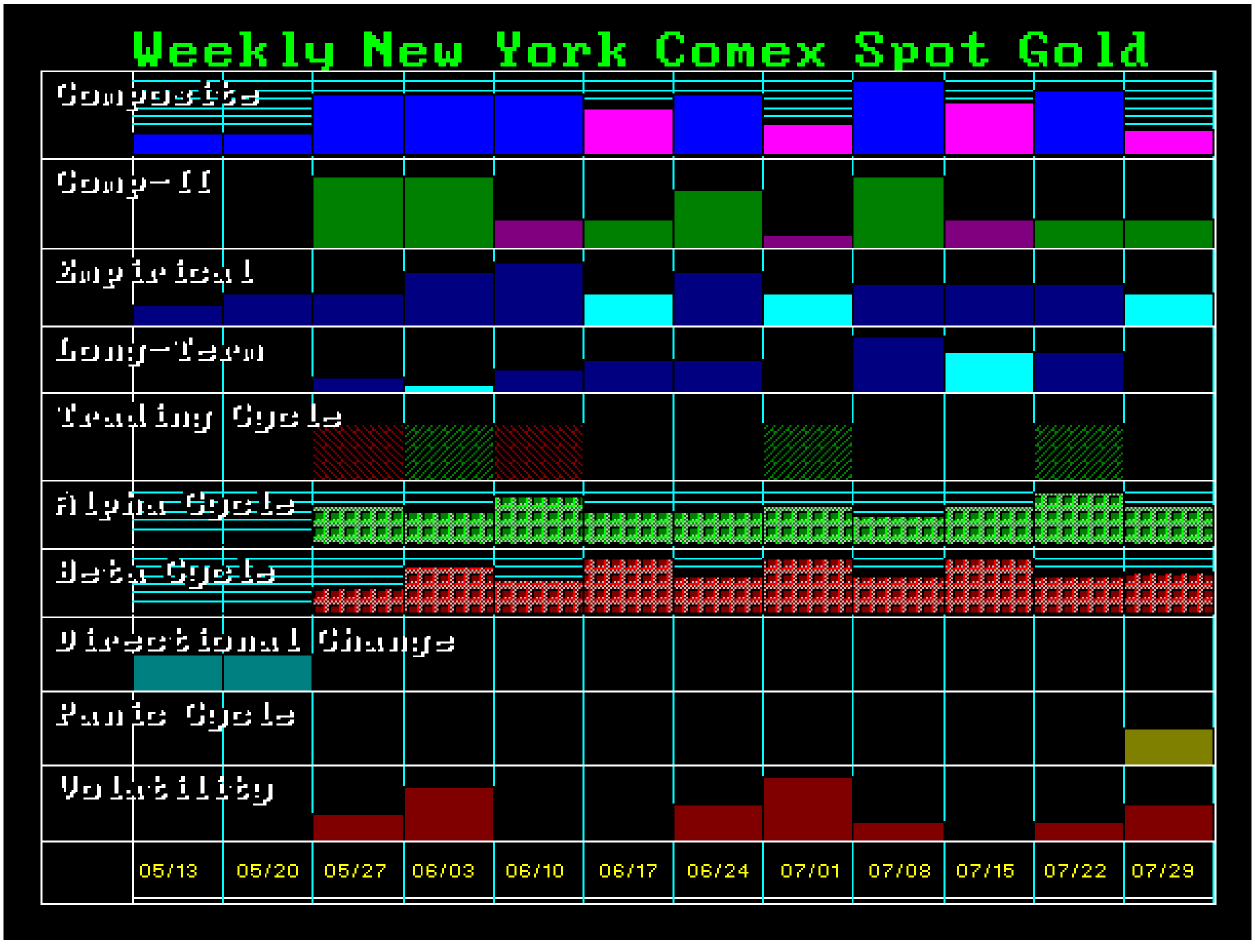
Looking at our Reversal System, we show that the Major Weekly Bullish Reversals stand at 149460, 159880, 161280 and 169780. Our model also highlights Weekly Bullish Reversals above the market at 169540, 172370 and 175230. Thereupon, only a weekly closing above 149460 will signal that a immediate uptrend should unfold thereafter. Such a closing would warn that all traders should prepare for an acceleration of this immediate trend. Eventually, an election of our Monthly Reversals will be the final confirmation that such an acceleration is at least possible.

Weekly Reversals

Major Bullish 149460 159880 161280 169540 169780 172370 175230
Major Bearish 132900 132000 127050 123650 123300 119710 118580 117680 116600 113020 108480 107470

WEEKLY COMPUTER RECOMMENDATION

On the Weekly level of our model we remain SHORT 7 positions. The last SHORT position was taken on the close for the week of 05/13 at 136470. Our general target objective would be to COVER between 11600-9070. We also see a technical objective for profit taking at the 11600 level. We would look to add another position by selling a Weekly close below 132000. We would look to COVER all outstanding SHORT positions by buying a Weekly close above 169780 and simultaneously REVERSING into a LONG position. From a timing perspective, you may want to consider taking profit if new lows are established during the weeks of 04/08, 04/22, 04/29, 05/27 or 06/10.



WEEKLY TIMING

The primary targets on an empirical basis for the next turning points will be the weeks of 05/20, 06/1-, 06/24, 07/08, 07/22 and 08/05 followed by 09/02.

Our Directional Change models indicate that turning points are due the weeks of 05/13 and 05/20. Our Panic Cycle Models suggest that higher volatility is due the week of 07/29.

Weekly Turning Points:
(05/20), 06/10, 06/24, (07/08), 07/22, 08/05. 09/20

WEEKLY TECHNICAL OUTLOOK

RESISTANCE: 16044 16856 17398
SUPPORT: 14964 14003 12440 10536

TABLE #4

Weekly Technical Projections

RESISTANCE: 3218 3218 3236 3533 145658

SUPPORT: 134964 128241 97866 3559

TABLE #4

Weekly Technical Projections

05/20...	97866	12824	13496	14565
05/27...	95388	12744	13475	14513
06/03...	92910	12665	13453	14461
06/10...	90432	12586	13432	14409
06/17...	87954	12506	13411	14357
06/24...	85476	12427	13390	14305
07/01...	82998	12347	13368	14252

Weekly Indicating Ranges

Date	Momentum	Trend	Long-Term
05/20	155410-132210	161790-144000	171340-148720
05/27	156600-140470	161840-141850	170550-147840
06/03	156040-135360	158580-144000	168400-144830

WEEKLY PATTERN RECOGNITION

According to our pattern recognition models we see that a possible outside reversal may be due the week of 05/27.

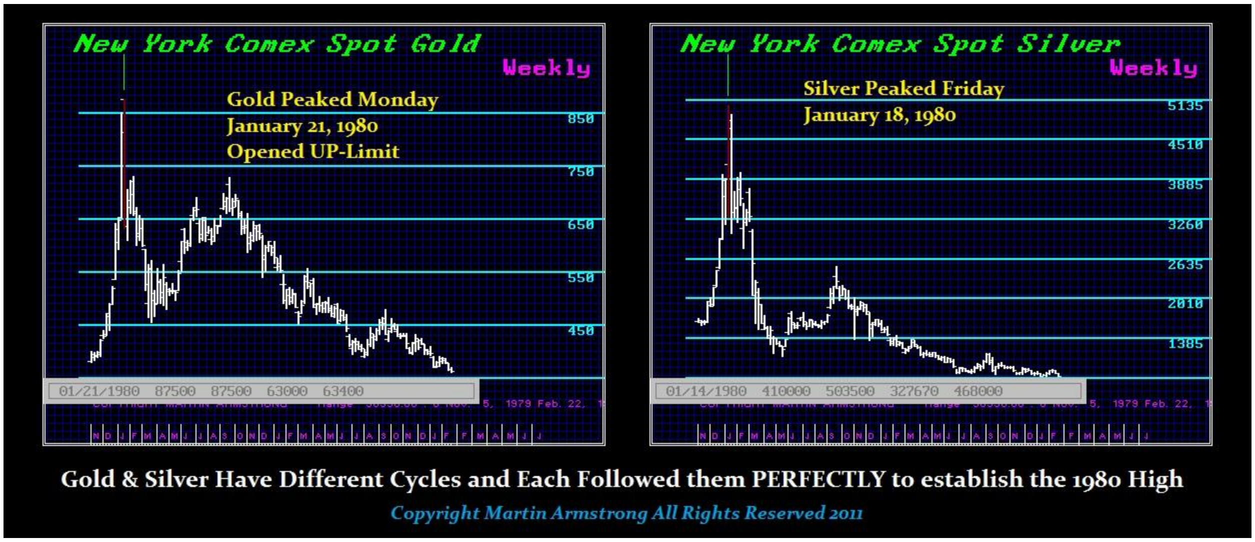
WEEK OF 05/20 MOMENTUM INDICATORS HLC 147130 140403 142183

A TECHNICAL OUTLOOK FOR NY SILVER

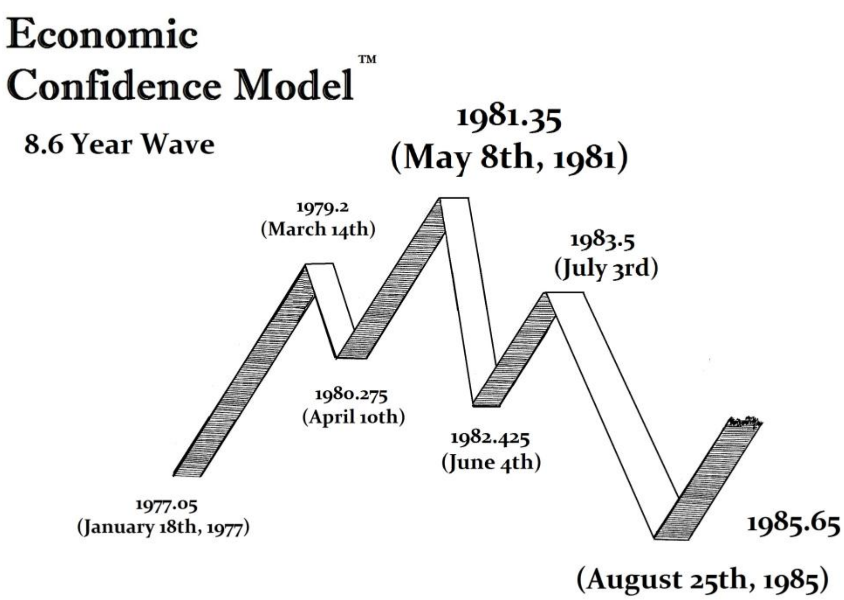
SILVER, on a nearest futures basis exceeded the 1980 high but on a cash spot basis it failed to do so because there were trading limits back in 1980. New York Spot Silver was opening up limit in the futures and could not trade whereas the spot market continued to trade. Consequently, the futures topped at $42 back in 1980 whereas today it reached only $49 going into 2011. The spot market in January 1980 actually reached $50.40 (see charts). Therefore, the 1980 high has **NOT** been exceeded. We have a **DOUBLE TOP** formation in the cash market compared to the nearest futures. This failure to exceed the 1980 high in sport silver is yet another indicator on our models that the metals have **NOT** broken out to the upside so far. Indeed, adjusted for inflation, gold has not exceeded the 1980 high either for using the government deflated CPI index, the 1980 high would be $2300. Therefore, despite all the hype and nonsense, the metals **HAVE NOT BROKEN OUT** as of yet. Eventually, the metals will breakout to new highs but that will be after 2015.

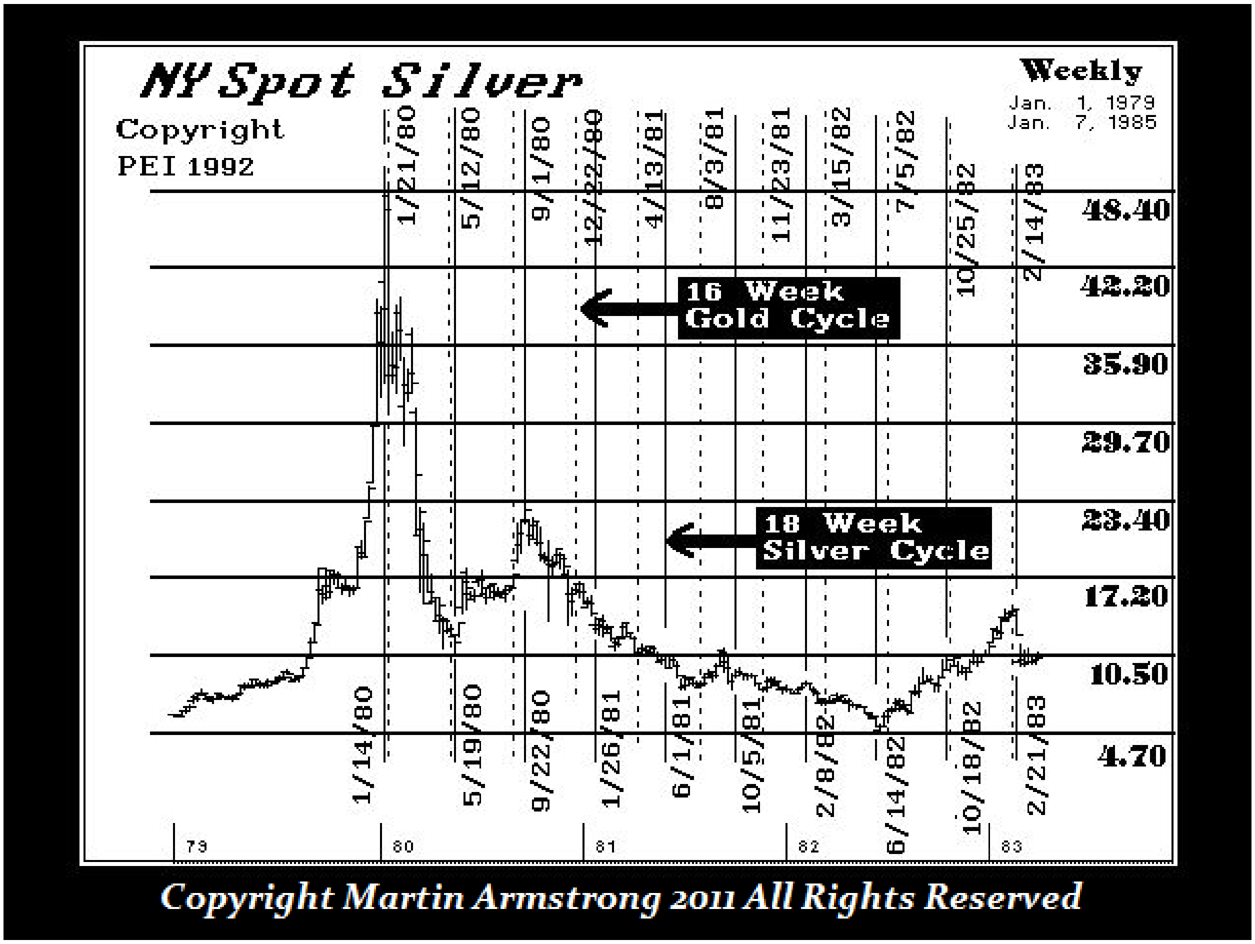

NY Silver Nearest Futures
Yearly
440
377
315
252
190
127
650
Price Targets
Tue., Jan. 1, 2013
Uptrend.... 0
Downtrend.. 0
Line #1.... 64851
Line #2.... 18771
Line #3.... 73543
Line #4.... 19951
Line #5.... 0
01/01/2013 0 0 0 0
1874 Jan. 1, 201
74
24
74
24


NY Silver
Double Top
Yearly
502
402
302
202
102
Copyright Martin Armstrong
2013 All Rights Reserved
92
42
92
42
92
Slow Stocastic (Period Factor = 13 Moving Average = 3)



While there are the overall Business Cycles refined by the **Economic Confidence Model** that does not dictate the trend for every market, each individual market has its own unique cycle. The model at that time peaked 1981.35, which pinpointed the high in interest rates and the end of the Public Wave. For the 1980 high, the gold and silver cycles came back to back and each market amazingly peaked according to their individual cycles. Silver peaked on Friday January 18, 1980 whereas gold astonishingly opened up-limit on Monday January 21, 1980 and then sold off without silver ever marking a new high. The metals dropped with silver bottoming the week of June 21st 1982 then rallied into 1983 and then collapsed again into the summer of 1985 still following in a broad sense the ECM.

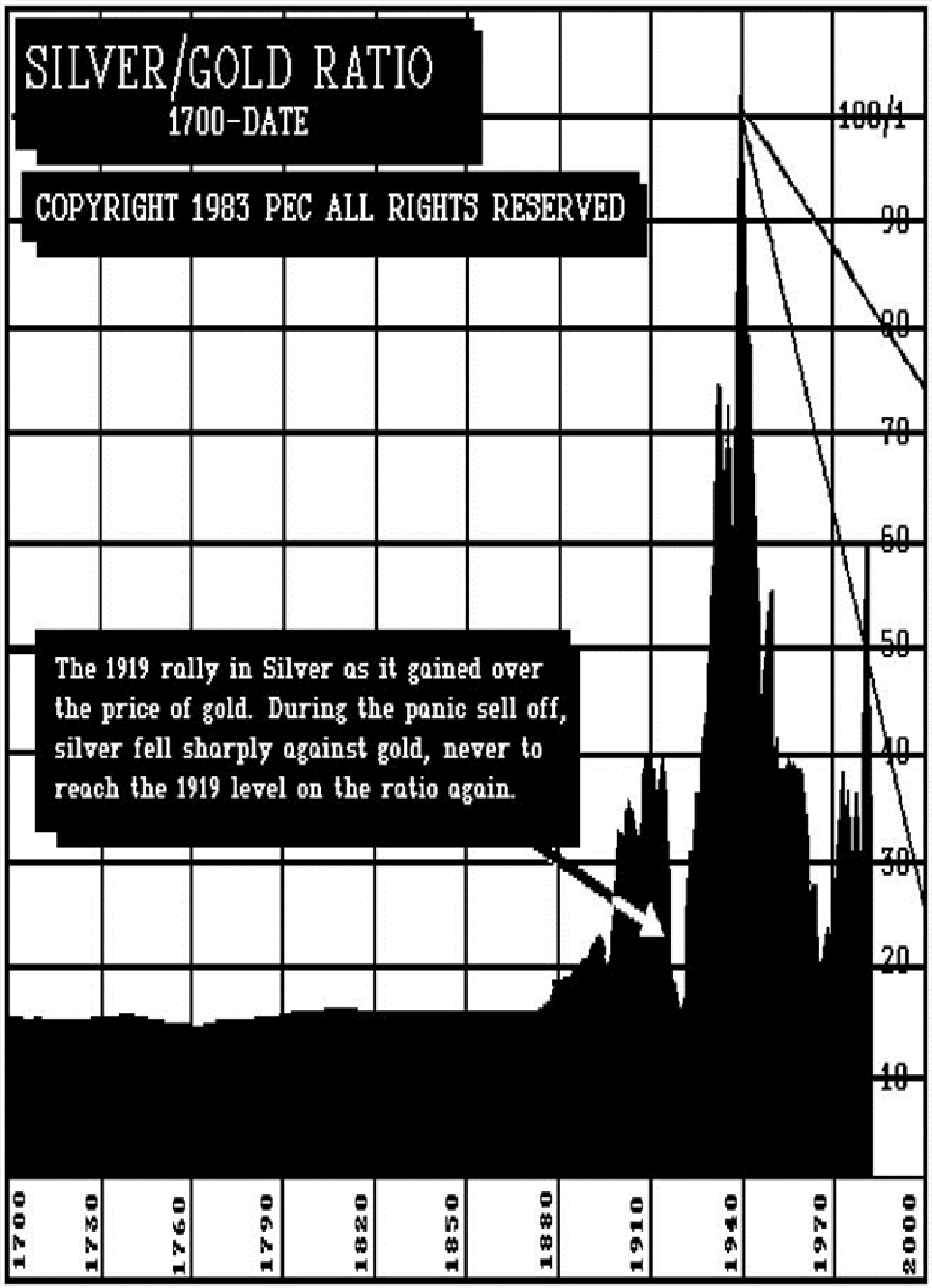




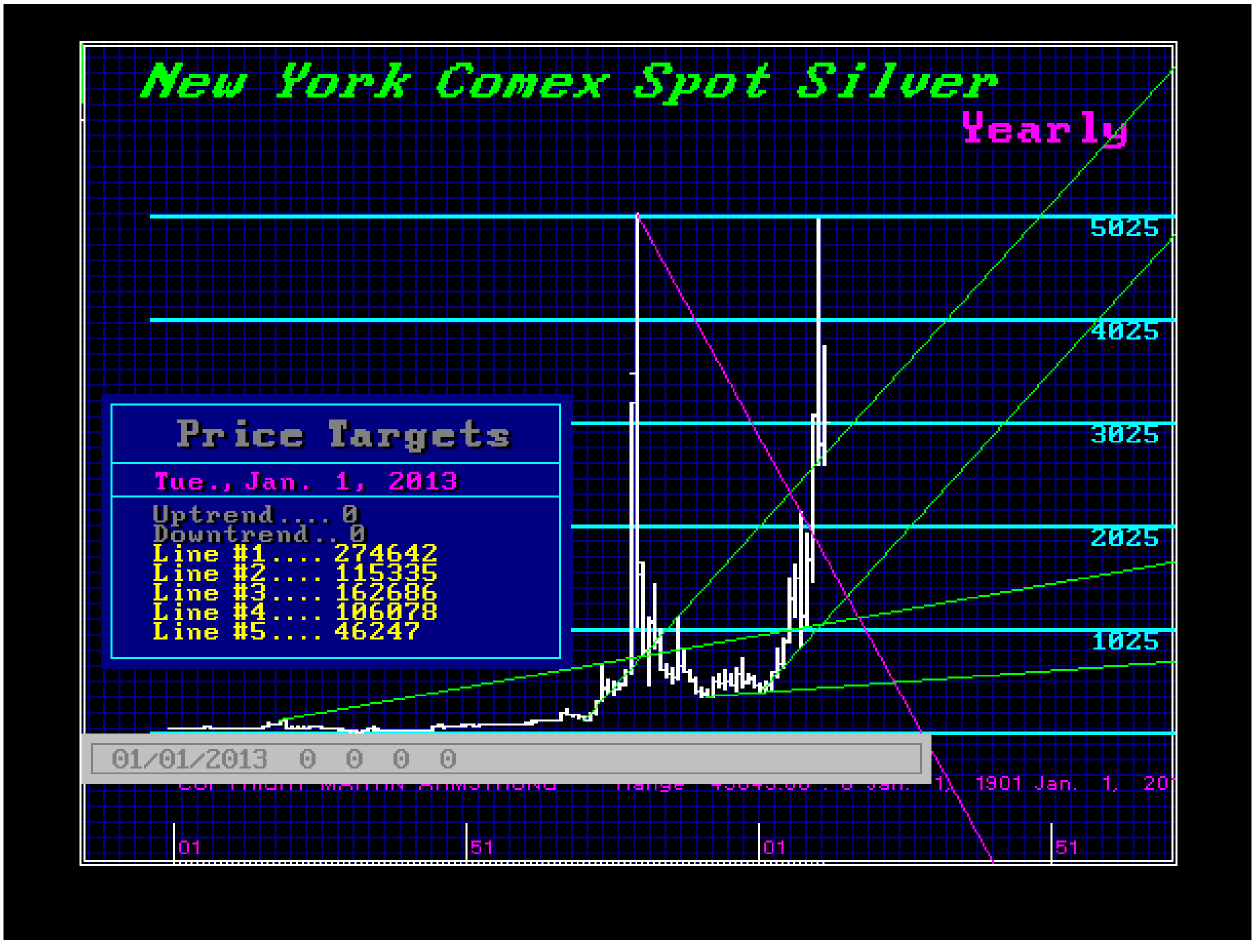
Here is the chart we use to publish from that time period illustrating not only how the model pinpointed the 1980 high as the target when the gold and silver cycles were back to back, but that prevailed for the bulk of the crash into 1982 where they remained back-to-back. The next time they came close within one week of each other was at the low again in 1985.

Everything follows its own cycle. The key to understanding a given market is how it actually interacts with everything around it. We all have our own unique DNA that makes some of us old in our 40s appearing as if we were in our 70s while others in their 70s look like they are in their 50s. Markets are the same way. Gold and silver have historically been on opposite planes. This is why there have been times that only silver coins circulate and other periods when only gold is found.

Indeed, after the fall of Rome, gold vanished in Europe from the coinage. The only coin struck in gold were in the East from the Byzantine Empire known as the Byzant. In Europe, gold coinage did not reappear until the 13th century. There are simply times when silver has been the dominant money supply and at other times it has been gold but not together. This is ONLY possible because they have unique cycles that are very different.



The silver/gold ratio is what it is because these two commodities are very different. On the next page, you can see the ratio from 1700 to 1983. Those that tout the ratio should be 16:1 are just selling nonsense since that ratio under fixed monetary standards that actually bankrupted the US by 1896, Gold fled from the USA as silver was overvalued and everyone sold it to the USA. The Silver Democrats were trying to create inflation and set in motion a Long-Depression that lasted for 26 years.



Consequently, silver even at the low is very interesting. In the spot cash market the intraday low was 1991 at $3.503 whereas the lowest annual closing was 1992 but there is the lowest low in Nearest Futures in 1993. In the spot market, the 1993 level is $3.508 sa again we have a virtual perfect **DOUBLE BOTTOM**. Markets are very symmetrical. Because we have a perfect **DOUBLE BOTTOM** at the lows, we will generate the **PERFECT DOUBLE TOP** at the highs, which was accomplished. Therefore, intraday we have the standard 18-Year Cycle in Silver working perfectly to produce the 2011 high. However, we also have the 19-year rally from the lowest annual closing in 1992. Again, this is symmetry in action.

The next huge turning points will be 2016 and 2022. Silver produced the usual 18-year turning point that unfolded as a high in the market, which has been largely consistent. Ideally, there should be a low forming 2 to 3 years from the last high in 2011 and that would point to 2013/2014. Of course, the typical bear market would be 5 years taking us into 2016. If we see a low in 2013, that should produce the bulk of the decline as did the drop into 1982. A closing in 2014 **BELOW** $19.500 would warn of a possible extension into early 2016 for a low and then a blast to the upside thereafter.

The **Yearly Bearish Reversals** are $8.51, $6.405, $5.470 and $4.150 from the 2011 high. From the 1980 high we did elect the first **Minor Yearly Bearish** at $4.31 at the close of 1990 and silver fell into the next year bottoming intraday at $3.50 intraday while the lowest annual closing came in 1992 and $3.67. The 1992 low was 12 years down from the intraday high in 1980 and 13 years down from the highest annual closing in 1979. Our **Minor Yearly Bearish** currently is $11.24 on spot. Hence, an annual closing **BELOW** $11.24 will warn of a drop to the $8.51 area.

Nevertheless, silver has always been prone to high volatility. Since this is effectively a **Double Top** with that of 1980, it is unlikely to reflect a long-term high, but rather a major shakeout creating a pause in the long-term trend. We previously stated that primary support in silver would be found in the $23.50-$26.50 range. The intraday lows have been $26.18 in September 2011, $26.24 in December 2011, and $26.16 in June 2012 on a nearest futures basis is matched by the spot lows of $26.15, $26.27, and $26.10 respectively. This is extremely bearish for the $26 became key support that once broken would become formidable resistance for any rally.

We also warned that long-term support and a **MONTHLY** closing would be found at this same level while support for the year-end closing would be found higher at $28, which was elected at the end of 2011 with that year closing at $27.95. This alone warned we were in a correction mode. A year-end closing **BELOW** $26.41 will warn that further lows are likely. The problem we see is that a break on a monthly close beneath $23.98 will warn of a possible drop to the $16.

The sharp spike rally in silver into April 2011 was in line with a normal **Phase Transition**. Normally, one would look at this with expectations of a prolonged decline. However, the pattern that has emerged is not one that implies a crash and burn type of collapse for a prolonged period of time. True, there has been a sharp decline but the triple bottom in the $26 zone suggests we are not dealing with a long-term bear market such as was the case in the Nikkei coming out of 1989 with isolated spike lows. That type of decline in silver would now only be possible with an annual closing **BELOW** $8.50. That does not appear likely. Instead, with the **Double Top** formation, we should find support and then make first a triple top followed by the forth thrust to break out into a new high watermark.

When we look at the other metals, keep in mind that industrial demand is likely to ease off a bit even in China. We are looking at a serious suppression of economic growth as governments seek to chase the rich causing capital to contract and that will only contribute to further rising unemployment and a steady decline in real tax revenues. This will only serve to propel the economic crisis we face from the **Sovereign Debt Crisis** on a global scale. Governments are confiscating assets – there is no hyperinflationary agenda. They are appeasing bondholders and assume they can bullshit the masses that they see as stupid.

THE COMPUTER WRITTEN REPORT

YEARLY LEVEL

Princeton's long-term view in NY SILVER remains that only a temporary high maybe in place at this time. In the event of new intraday lows developing beyond this year, then the final low could extend into 2014. This year in NY SILVER, according to the system model, the immediate indications on the Yearly Level are bullish on the short-term momentum, while trend, however, is currently neutral on the Yearly level of activity. Even though the short-term indicators are mixed, we find that the intermediate indicators are bullish. This suggests that the 8494 level is where major support will be found. As long as that intermediate support at 1470 holds, then any decline may prove to be short-lived.

On the broader perspective, the Cyclical Strength Model is currently bullish. Everything on the long-term models, including momentum and trend, is still in the bullish mode on the Yearly level. Therefore, support appears to rest under the market at the 21450, 14700, 9970, and

8490. Resistance will be found residing above the market at, 31000 level for 2013. There is a risk that this could drop to 26000 going into 2014 if we close below that level for 2013.

YEARLY REVERSAL SYSTEM

The **Yearly Bearish Reversals** are 8.51, 6.405, 5.470 and 4.150 from the 2011 high. From the 1980 high we did elect the first **Minor Yearly Bearish** at 4.31 at the close of 1990 and silver fell into the next year bottoming intraday at 3.50 intraday while the lowest annual closing came in 1992 and 3.67. The 1992 low was 12 years down from the intraday high in 1980 and 13 years down from the highest annual closing in 1979. Our **Minor Yearly Bearish Reversals** currently are 26.10 and 11.24 on spot. Hence, an annual closing **BELOW** this level will warn of a drop to the 8.51 area.

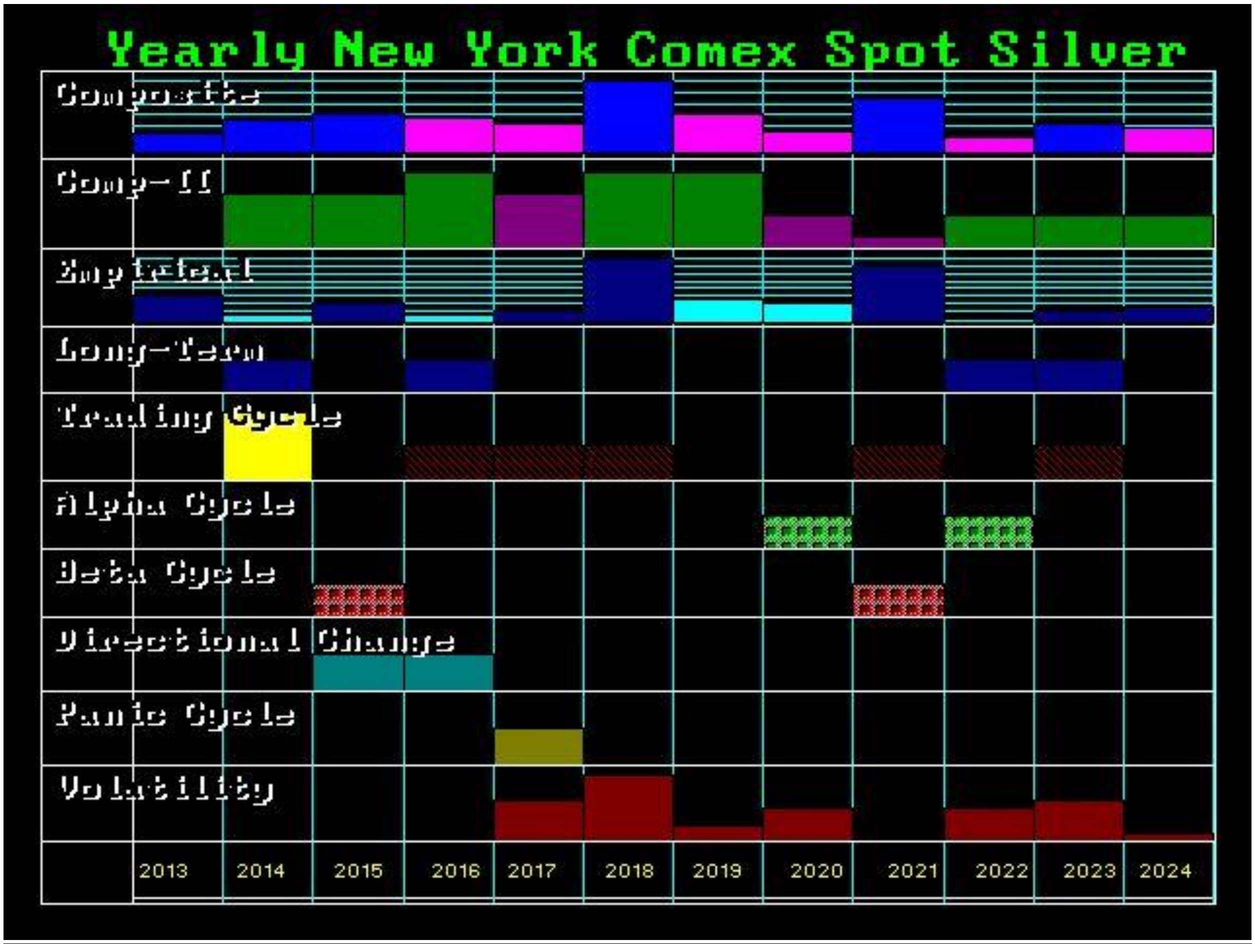
Right now, Major Yearly Bullish Reversal remains at 32.20 level, which has never been elected. When we see an annual closing above this level then a breakout to the upside is likely. The highest annual closing in 2010 was 30.991. Therefore, only a yearly closing above 32.20 on spot will signal that an uptrend is likely to unfold.

Yearly Reversals

Major Bullish 32200
Minor Bearish 2610 1124
Major Bearish 851 6405 5470 4150

YEARLY COMPUTER RECOMMENDATION

On the Yearly level of our model we remain SHORT 1 position. The last SHORT position was taken on an MIT at 50000. We would add another position on a Yearly closing below 146800. Our general target objective would be to BUY new low in 2013 at the ideal target of 105000 level using an MIT. We would add an additional position using a SXCO at 8815 on a Yearly closing basis. Reversing into a long position should be considered if 322000 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if new lows are established during 2013 under $23.



YEARLY TIMING

On our empirical models, the ideal primary targets for the important turning points on the yearly level of our model are 2015, 2018, and 2021. The current decline is likely to bottom in 2013 or 2014. However, it could extend into 2015 if 2014 closes below 1950. Thereafter, a re-test of resistance should develop going into 2018 perhaps forming only a triple top saving new record highs for 2021-2024.

Employing composite cycle analysis, the key years for a turning point in NY SILVER will be 2025, 2027, and 2039.

Our Directional Change models indicate that turning points are due the years of 2015 and 2016 showing choppy trends near-term. Our Panic Cycle Models suggest that higher volatility is due the year of 2017 whereas on the Nearest Futures there are two targets 2018 and 2022. Volatility should rise in 2017-2018.

<u>Yearly Turning Points:</u>

(2013-2014), 2015, 2018, 2021, 2024

<u>YEARLY TECHNICAL OUTLOOK</u>

RESISTANCE: 4909 6294 64851
SUPPORT: 51612 50832 34842 25292 24059 20422 20422 13588

TABLE #1

<u>Yearly Technical Projections</u>

2013...	13588	20422	24059	44790	51612	76942
2014...	13753	21188	24601	46080	52538	77747
2015...	13917	21953	25143	47370	53464	78551
2016...	14082	22718	25685	48660	54390	79355
2017...	14247	23484	26226	49950	55316	80160
2018...	14411	24249	26768	51240	56242	80964
2019...	14576	25014	27310	52530	57168	81768

Yearly Indicating Ranges

Date	Momentum	Trend	Long-Term
2013	11250-4620	14680-5348	21440-5620
2014	10355-4050	19500-4920	26150-5965
2015	14680-4225	26105-5009	31015-5170

<u>YEARLY PATTERN RECOGNITION</u>

If this year closes below 297433, then the upward momentum has been lost which implies that a temporary top is in place and a near-term retest of support should begin going into 2013-2014.

2013 MOMENTUM INDICATORS HLC 394800 223116 297433

QUARTERLY LEVEL

QUARTERLY REVERSAL SYSTEM

Our Quarterly Bullish Reversals stand at 352600 and 375800. A quarterly closing above 352600 will signal that this market should continue to advance to new recent highs. However, as long as this market remains below 352600 on a quarterly closing basis, then the immediate trend must be considered as neutral and any close beneath a Bearish Reversal 170800 will signal a drop to the 146800 level.

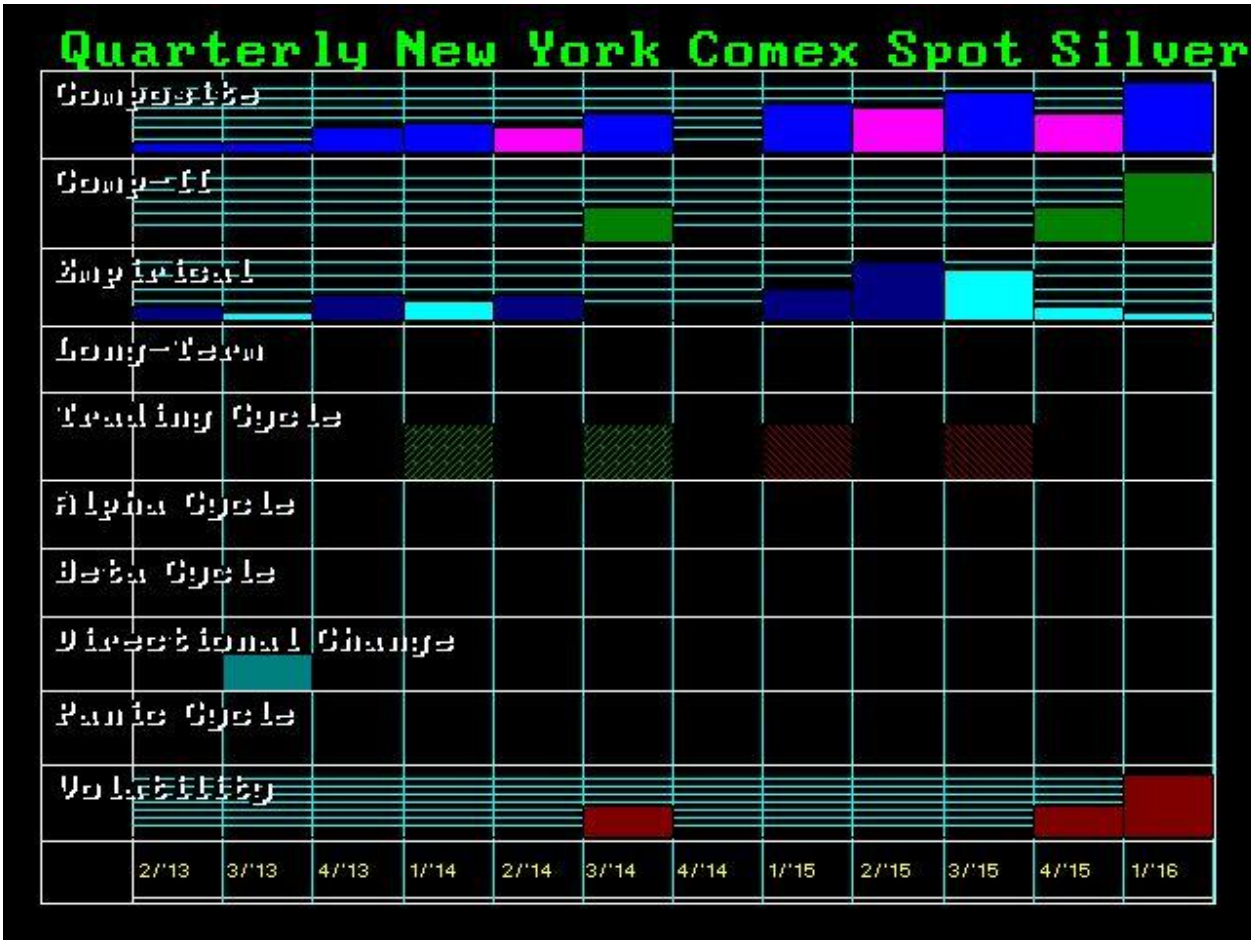
The Reversal System indicates that our near-term Major Quarterly Bearish Reversals are found at 170800, 146800, 133600, 112450, 107900, 64050, 58350, and 40500. Accordingly, only a quarterly closing below 170800 will signal that an immediate downtrend should unfold thereafter in the short-term.

Quarterly Reversals

Minor Bullish 352600 375800
Minor Bearish 170800 146800 133600 112450 107900 64050 58350 40500

QUARTERLY COMPUTER RECOMMENDATION

On the Quarterly level of our model we remain SHORT 1 position. The last SHORT position was taken on an MIT during the 4th Quarter 2011 at 495000. Our general target objective would be to BUY new low at 150000 using an MIT. We would use a SXCO at 146700 on a Quarterly closing basis to reenter a short position. Reversing into a long position should be considered if 352600 is penetrated on a closing basis. From a timing perspective, you may want to consider taking profit if new lows are established during the in 2013 under 170000.



QUARTERLY TIMING

According to our empirical models, the ideal primary target for the next major turning point on the quarterly level, remains 01/2014 with minor turning points due 02/2013, 04/2013, 02/2014. Major turning points appear to be 01/2014, 03/2014, 01/2015, 02/2015 03/2015, and 01/2016.

Using a composite of a variety of timing intervals, the key quarters for a turning point in NY SILVER will be 04/2014 and 03/2021.

Our Directional Change models indicate that turning points are due the quarters of 02/2013 and 04/2013 on a nearest futures basis and 03/2013 on the sport market.

Quarterly Turning Points:

(02/2013), (04/2013), (02/2014) 01/2014, 03/2014, 03/2014, 01/2015, 02/2015, 03/2015, 01/2016

QUARTERLY TECHNICAL OUTLOOK

RESISTANCE: 30777
SUPPORT: 24390 22772 17593 17542

TABLE #2
Quarterly Technical Projections

04/2013...	7391	10610	17542	22772	30777	40160
07/2013...	6722	10663	17699	22833	28424	41051
10/2013...	6053	10716	17856	22895	26071	41942
01/2014...	5384	10769	18013	22956	23719	42834
04/2014...	4715	10822	18170	23018	21366	43725
07/2014...	4046	10875	18326	23080	19013	44616
10/2014...	3377	10928	18483	23141	16661	45507

Quarterly Indicating Ranges

Date	Momentum	Trend	Long-Term
07/2013	261050-122900	296350-148600	333600-170800
10/2013	264250-122450	279250-143000	325150-173250
01/2014	283750-112450	296350-141600	310150-202500

2ND QUARTER '2013 MOMENTUM INDICATORS HLC 34427 28055 31095

MONTHLY LEVEL

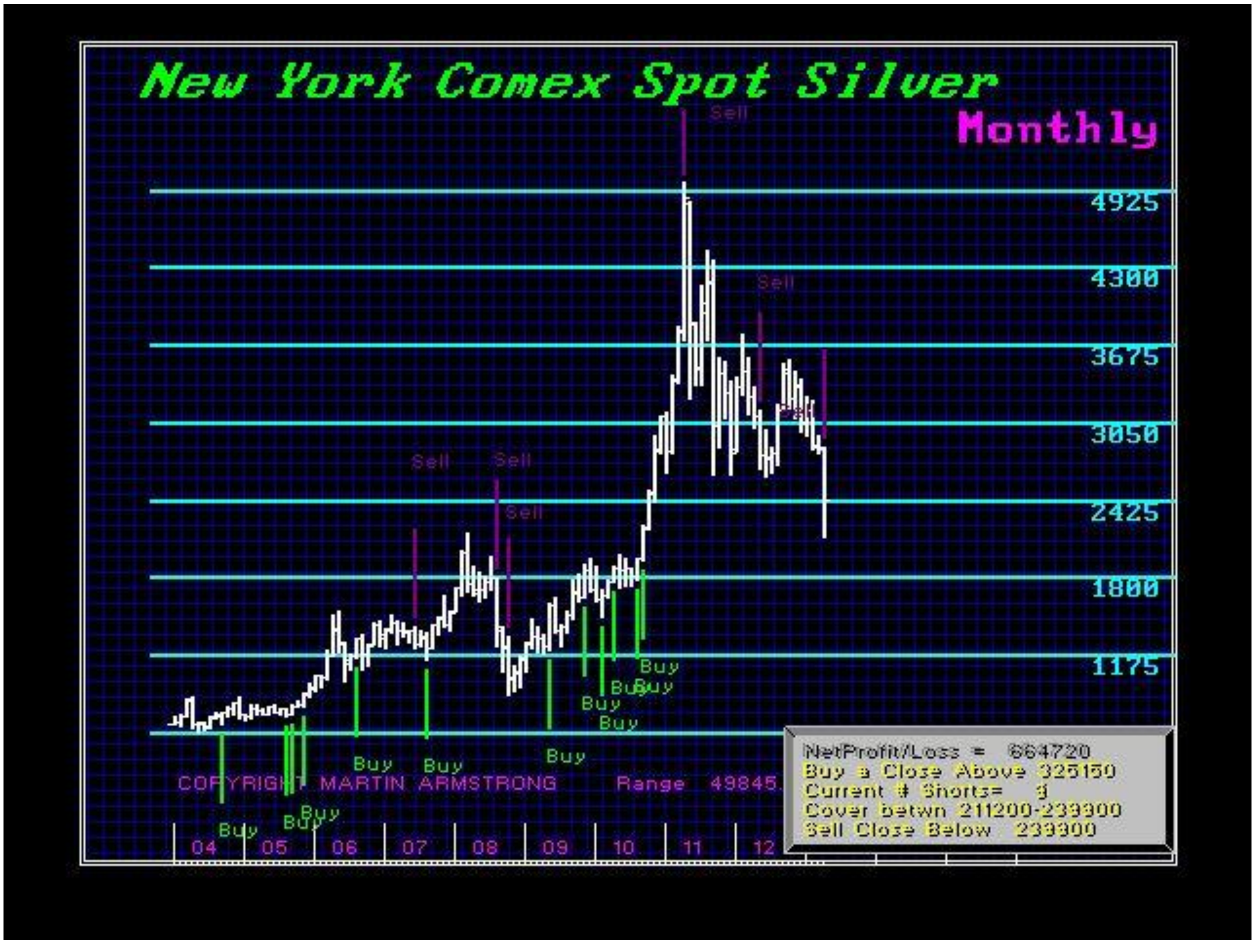
MONTHLY REVERSAL SYSTEM

When we look at the Reversal System, we see that Major Monthly Bearish Reversal resides at 239900, followed by 163300, 121650 and 82900. Consequently, a monthly closing below 239900 will signal that an immediate downtrend should unfold thereafter with a drop to test the 160000 level.

Immediately, our Minor Monthly Bullish Reversals exist at 325150, 343150, 344900, and 357050. Our model also provides Minor Monthly Bullish Reversals at 357050 and 481900.

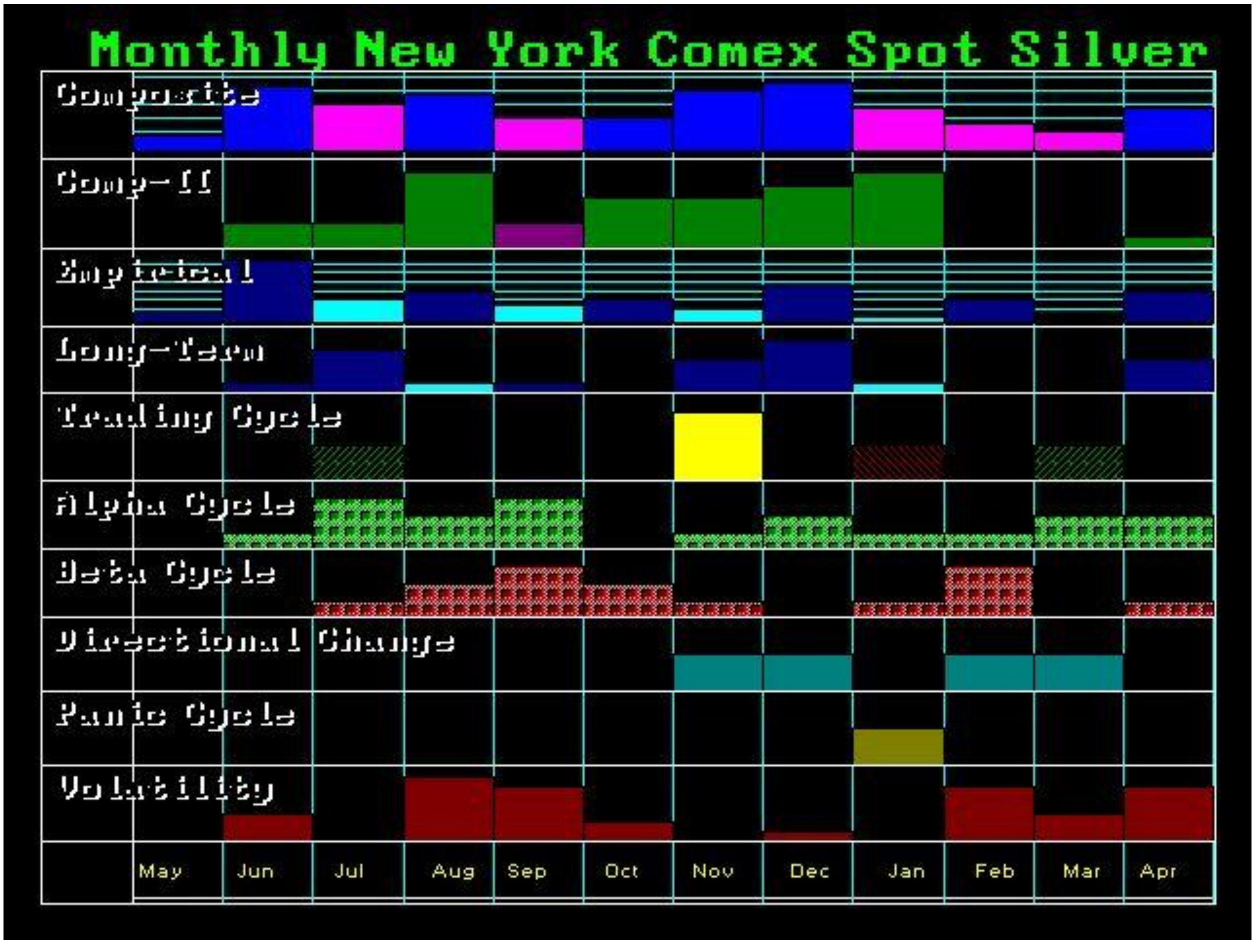
Monthly Reversals

Minor Bullish 325150 343150 344900 357050 481900
Minor Bearish 239900 163300 121650 82900



MONTHLY COMPUTER RECOMMENDATION

On the Monthly level of our model we remain SHORT 3 positions. The last SHORT position was taken on the close of 04/2013 at 241850. We would look to add another position by selling a Monthly close below 26415. We would look to COVER all outstanding SHORT positions by buying a Monthly close above 30903 and simultaneously REVERSING into a LONG position. From a timing perspective, you may want to consider taking profit if new lows are established during 06-07/2013 or 09/2013.



MONTHLY TIMING

Looking at our empirical models, the ideal primary targets for turning points on the monthly level remain 06-07/2013, 08/2013, 12/2013 followed by 04/2014. A monthly closing below 2600 for05/2013 may warn of further downside into 06-07/2013.

Employing composite cycle analysis, the key months for a turning point in NY SILVER will be 08/2014 and 02/2016.

Our Directional Change models on the Nearest Futures indicate that turning points are due the months of 11/2013, 01/2014, 02/2014 and 03/2014. It appears to be very choppy starting 11/2013. Our Panic Cycle Models suggest that higher volatility is due the month of 05/2013 and again in 08/2013. However, on the spot market Directional Change targets are 11/2013 and 12/2013 followed by 02/2014 and 03/2014 with a Panic Cycles due 01/2014.

Monthly Turning Points:

(05/2013), 06-7/2013, 08/2013, 12/2013, 04/2014

<u>MONTHLY TECHNICAL OUTLOOK</u>

RESISTANCE: 6903 271112 299353
SUPPORT: 153389 151575 2392

TABLE #3
<u>Monthly Technical Projections</u>

05/01...	15157	15338	27111	29935
06/01...	13770	14798	27202	29138
07/01...	12382	14257	27294	28342
08/01...	10995	13717	27385	27546
09/01...	96075	13176	27477	26749
10/01...	82200	12636	27568	25953
11/01...	68325	12095	27660	25156

Monthly Indicating Ranges

Date	Momentum	Trend	Long-Term
05/2013	333600-283150	335650-296350	339300-299900
06/2013	313650-267300	325150-279250	371500-293000
07/2013	299150-211200	322100-261050	323000-283150

MAY MOMENTUM INDICATORS HLC 299783 257866 269996

WEEKLY LEVEL

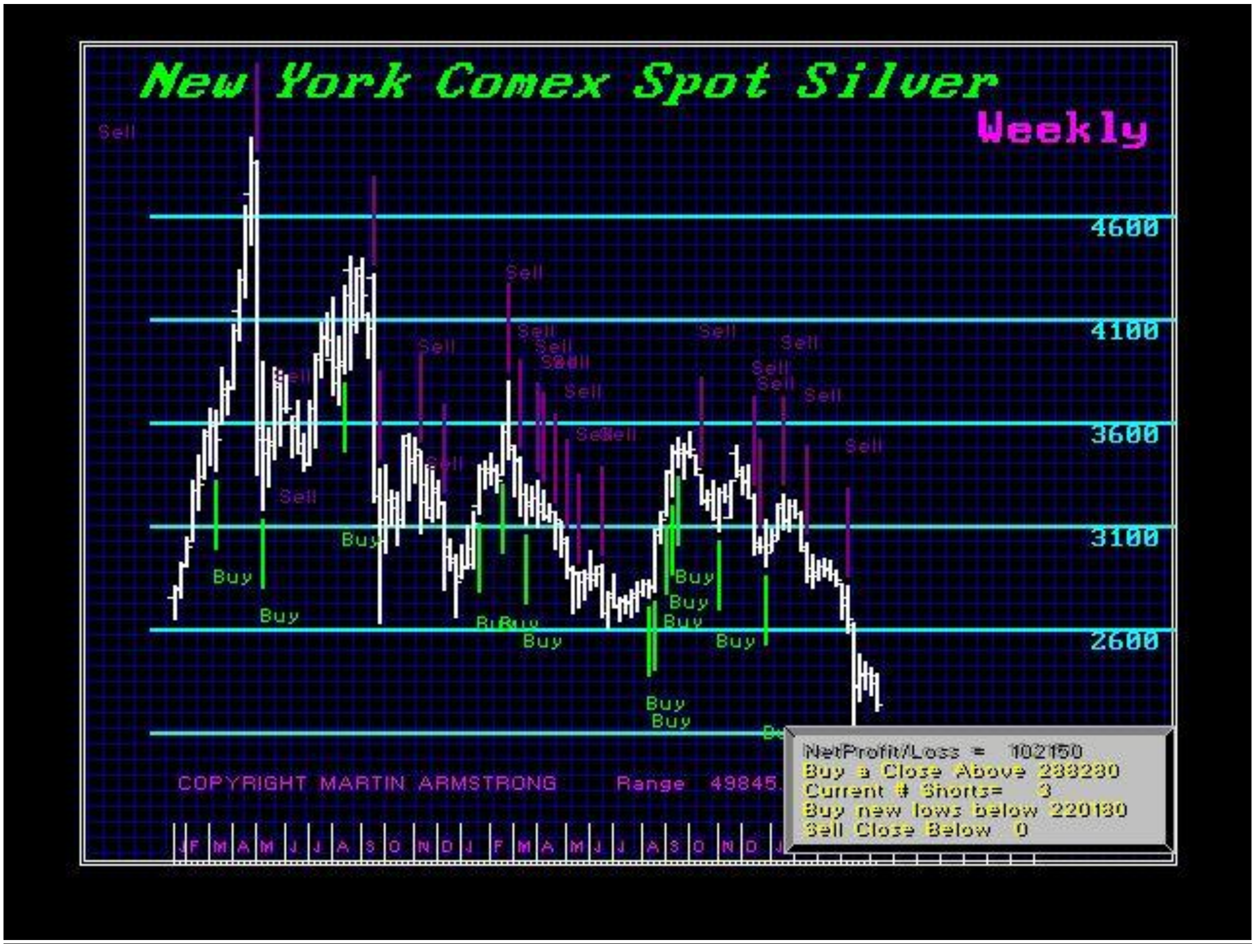
WEEKLY REVERSAL SYSTEM

The Minor Weekly Bullish Reversals are 262650, 288280, 293590 and 320340. Our model also highlights Major Weekly Bullish Reversals above the market at 339210, 348560 and 355490. Accordingly, only a weekly closing above 262650 will signal that an uptrend will unfold short-term. However, a weekly closing above 334470 is required to stabilize this market for now.

Utilizing the Reversal System, we find that the Minor Weekly Bearish Reversals are found at 204860, 196450, 177320 and 176830, with additional reversals at 175640, 174240, 167900 and 165240. A weekly closing below 204860 will signal a downtrend should unfold thereafter.

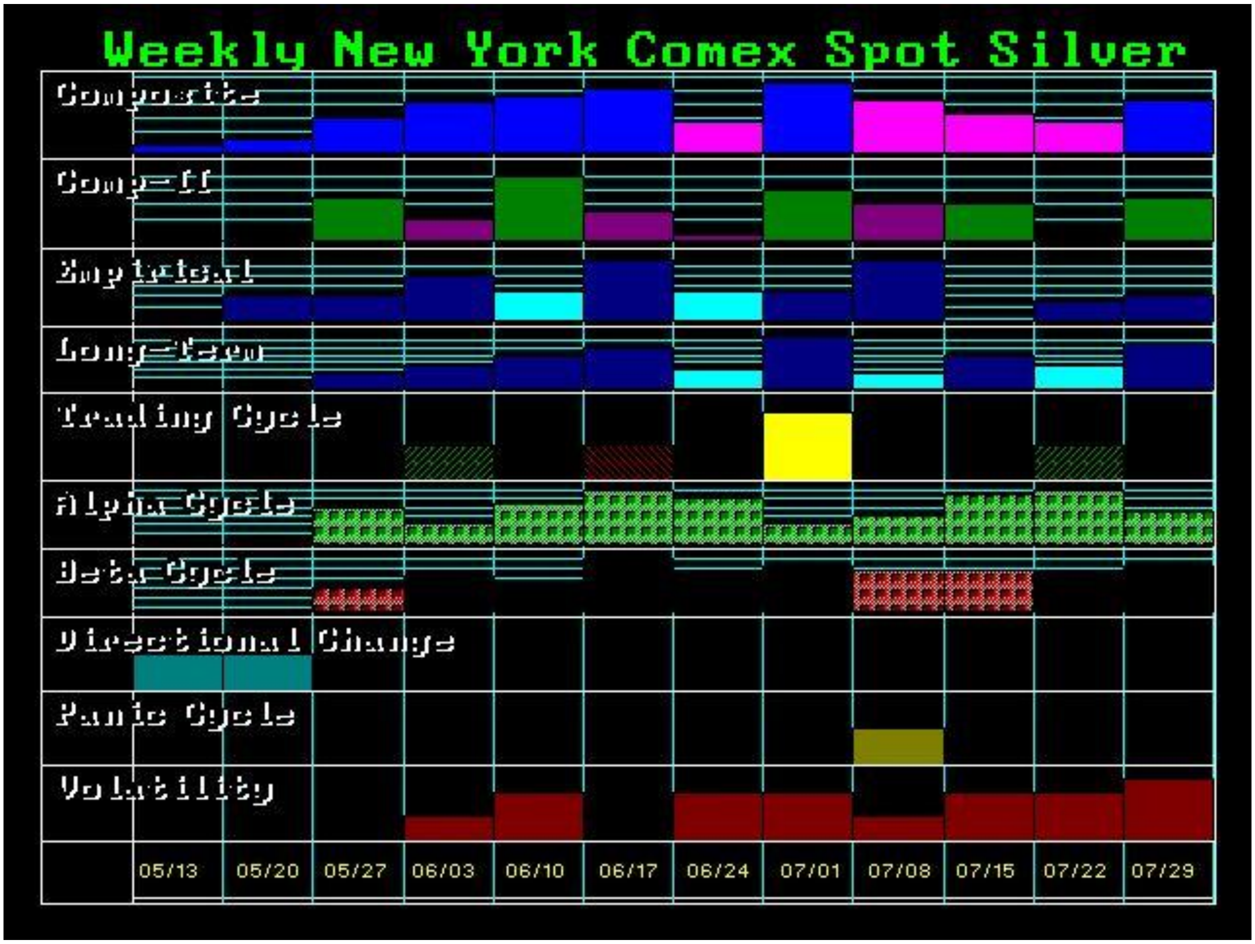
Weekly Reversals

Major Bullish 262650 288280 293590 320340 339210 348560 355490
Minor Bearish 204860 196450 177320 176830 175640 174240 167900 165240



WEEKLY COMPUTER RECOMMENDATION

On the Weekly level of our model we remain SHORT 3 positions. The last SHORT position was taken on the close for the week of 04/08 at 264100. Our general target objective would be to COVER between 21000-20000. We would look to add another position by selling a Weekly close below 204860. We would look to COVER all outstanding SHORT positions by buying a Weekly close above 288280. From a timing perspective, you may want to consider taking profit if new lows are established during the weeks of 06/03 or 06/17.



WEEKLY TIMING

The primary target on an empirical basis for the next turning point on the weekly level remains 05/20 followed by 06/03, 06/17, 07/01, and 07/29.

Using a composite of a variety of timing intervals, the key weeks for a turning point in NY SILVER will be 07/15 and 07/29.

Our Directional Change models indicate that turning points are due the weeks of 05/13 and 05/20. Our Panic Cycle Models suggest that higher volatility is due the week of 07/08.
We see high volatility running into 07/29.

Weekly Turning Points:
(05/20), (06/03), 06/17, 07/01, 07/29

WEEKLY TECHNICAL OUTLOOK

TABLE #4

Weekly Technical Projections

RESISTANCE: 5252 8516 292803

SUPPORT: 164013 5165 4145 3841 3674

05/20... 16401 29280
05/27... 16092 29090
06/03... 15782 28900
06/10... 15473 28710
06/17... 15164 28520
06/24... 14855 28330
07/01... 14546 28140

Weekly Indicating Ranges

Date	Momentum	Trend	Long-Term
05/20	282750-213000	301600-230110	313290-243810
05/27	279850-224920	295550-227820	333610-240520
06/03	283420-220180	292770-230110	324790-237980

WEEK OF 05/20 MOMENTUM INDICATORS HLC 240770 226036 231383