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Forecasting the World - Financial Markets - Politics - Economics

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THE PRECIOUS METAL OUTLOOK

2013 EDITION

(PART II)

PRINCETON ECONOMICS

Research Institute

The International Think Tank

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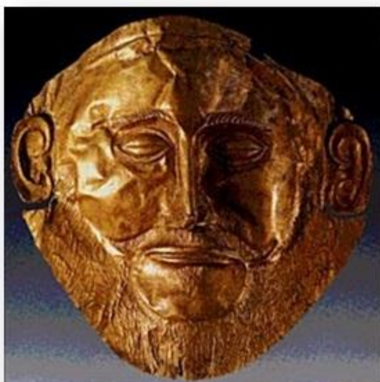
Gold & The Dollar - A Long-Term Perspective

Minoan Copper Ingots circa 1200-1000BC

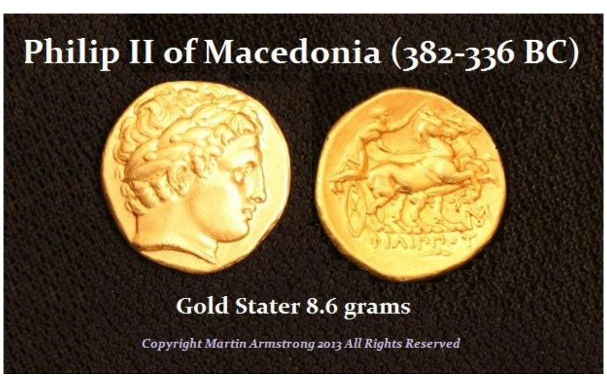
One of the greatest propagandas has been that gold is money and always has been. Nothing can be more further from the truth. Society has moved in and out of Dark Ages where even money has vanished from use, circulation, and production. This is true both from the West European as well as for the Asian historical perspective. There was a Dark Age in Greece between the Heroic Age of Agamemnon culminating in the siege of Troy and the Hellenistic Age. During that time, there was no official form of money. The dominant economy had been the Minoans whose base monetary unit was bronze. Their vast seafaring trading-skills enabled them to get tin from England and bring that back to the Mediterranean giving birth to the Bronze Age. Thus, money took the form of very useful copper and bronze ingots. Gold and silver were more luxury goods with no real practical use since you could not consume them nor were they good for tools and weapons. We find gold and silver used purely for ornamentation.



Agamemnon's Death Mask

We find gold typically adorning the tombs of kings from Egypt with the impressive sold gold coffin of **Tutankhamen (1332-1323BC)** with a weight of 110.4 kilos (3549.43 troy oz.). At $2,000, that makes the coffin worth in scrap almost $7.1 million. We also find gold adorning the tomb of Agamemnon with his famous death mask. There are various royal objects like cups in gold and we find silver as well mostly for the elite. Gold in general tended to be the exclusive domain of kings. However, as gold became more common, we begin to see it in jewelry for non-royals.

Then there is the tomb of Alexander the Great's father – Philip II (382–336 BC) after the Greek Dark Age. Once again, we find gold still adorning royal tombs. The larnax (box) in which his bones were placed was 24 carat gold and weighing 11 kilograms and inside was also found the golden wreath with 313 oak leaves and 68 acorns, weighing 717 grams. At $2,000, the larnax would be worth $707,000 while the wreath would be about $46,000. Gold coins of Philip II were very common by this time. The standard became the stater with a weight of 8.6 grams, which the barbarians in Western Europe imitated.



The last Roman Emperor was Romulus Augustus (475-476AD). His monetary denominations were predominantly gold at that time with silver largely produced in small quantities. There was a tiny bronze coinage with a weight of about 0.61 grams. The money supply consisted largely of gold. When Rome fell, the barbarians tried to keep the game going. They effectively pretended to be Roman. However, this did not last very long. The Ostogoths, a branch of the later Goths, a nomadic tribe of Germanic peoples coming from the Black Seas establishing a kingdom in Italy, tended to die out by the mid-6th century. The Visigoths, another branch of Goths settled in southern Gaul (today's France) down into Spain and lasted until about 702AD. The Burgundians in France also died out by the mid-6th century. In Benevento, the Lombard Kings (671–851AD) held until the 9th century. The Vandals of North Africa also lasted only into the mid-6th century.

We begin to see during the 8th century the attempt to reestablish the Roman monetary system, minus the gold. The first silver denier appears about 751AD by Charlemagne's father, Peppin (the short) (751-768AD). This is the beginning of the monetary system after the fall of Rome. However, there is simply no gold coinage until the 13th century.


Peppin (*the short*) (751-768) Silver Denier 1.3 grams

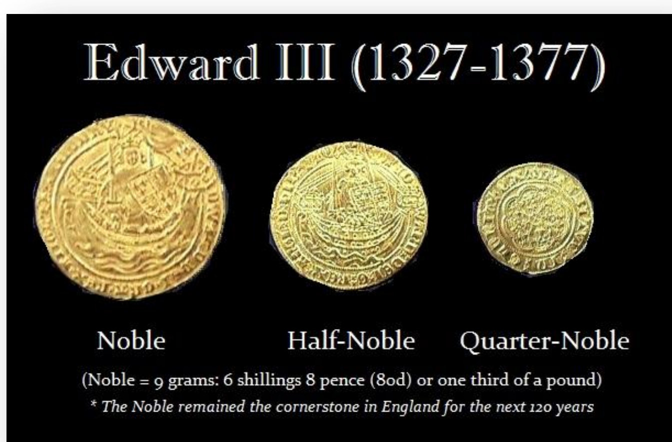

Brindisi Gold Augustalis (5.21 g) circa 1232

Florentine Gold Florin Circa 1252 (3.5 g)

Genoa Republic 1253 Gold Genovino (3.5 g)

England Henry III (1216-1272) 1257 Gold Penny (2.9 g)

Gold begins to emerge during the 13th century after vanishing for the most part with duration of nearly 600 years. Consequently, the idea that gold has always been money is simply not true. It did not emerge as a medium of exchange until it became a luxury and no longer the exclusive domain of kings. Then it vanished for nearly 600 years after the fall of Rome in the West. Gold begins to reemerge as effectively a two-tier currency suitable for international trade rather than domestic use. In Florence, gold was used for international trade, but domestically silver was used to pay wages and expenses. Merchants were required to keep two sets of books. Overall, gold does not begin to reappear in quantity until the rein of Edward III (1327-1377) in England.

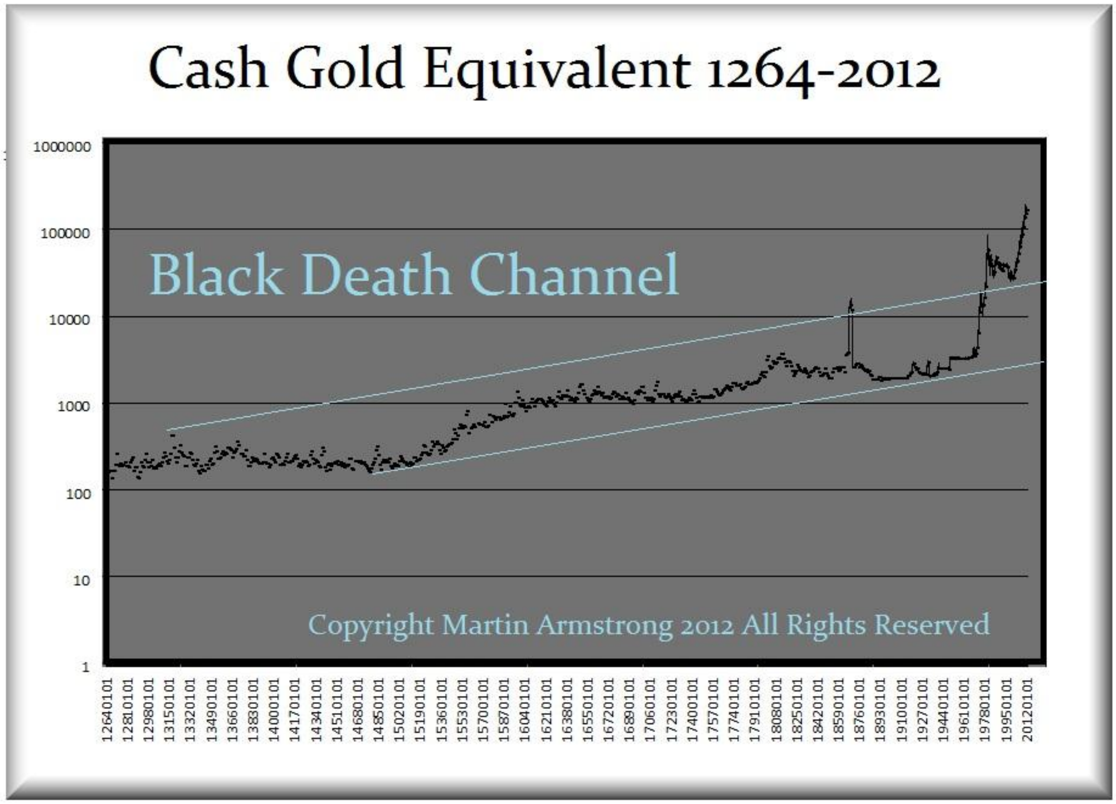


(Noble = 9 grams: 6 shillings 8 pence (80d) or one third of a pound)
** The Noble remained the cornerstone in England for the next 120 years*

Black Death

Therefore, we recreated a picture of gold and its value relative to commodities and currencies going back to 1264 before the **Black Death** that struck Europe between 1348 and 1350 killing off about 50% of the population that began the free markets by reintroducing wages. The **Black Death** drastically reduced the work force and thus this shortage of labor forced landlords to begin to offer wages rather than serfdom that provided a free home and a portion of the crop they grew. Once wages began, so did taxation and suddenly there was a need for coinage. Within 26 years, we begin to see tax rebellions in France and then in England with the Great Revolt of 1381 over taxes. It took the Black Death to ignite the rebirth of Capitalism, which is best defined as the freedom and liberty of the individual. Serfdom, Fascism, Communism, and Socialism are all forms where the state is in charge to varying degrees as the individual surrenders their freedom and liberty to be controlled by some dominant central power.

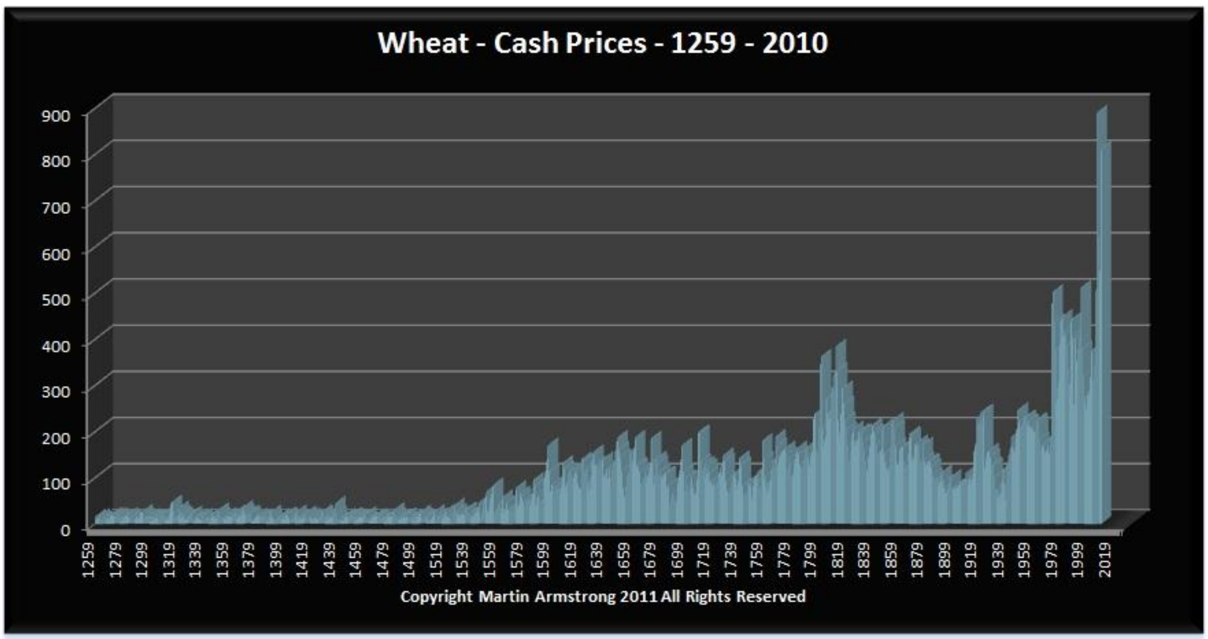
The Great Revolt of 1381



Therefore, the work that went into creating this chart was extensive to say the least. The significance of the start date of 1264 encompases the first banking crisis of 1298 when France effectively first defaulted on its bankers. We are looking at the birth of Capitalism insofar as that represents the free movement of capital, which includes labor. Once people were able to sell their labor to a bidder that met their liking, capitalism was reborn.

When we look at this chart in log scale, we can see that the firt spike to test and penetrate the top of that channel we have named the **Black Death Channel**, was the Panic of 1869 where the United States was on a floating exchange rate system. Gold reached $162 an ounce on that run. It then fell back under a gold standard and crawled along the bottom until Roosevelt devalued the dollar. We then see the break of the gold standard established by Bretton Woods and gold begins the free market rally thereafter. The rally into 1974 tests the top of that channel and then gold falls by about 50% into 1976. Thereafter, it begins the rally into 1980. The 19 year bear market results in the necessary retest of the **Black Death Channel** and then the rally into 2011 begins.

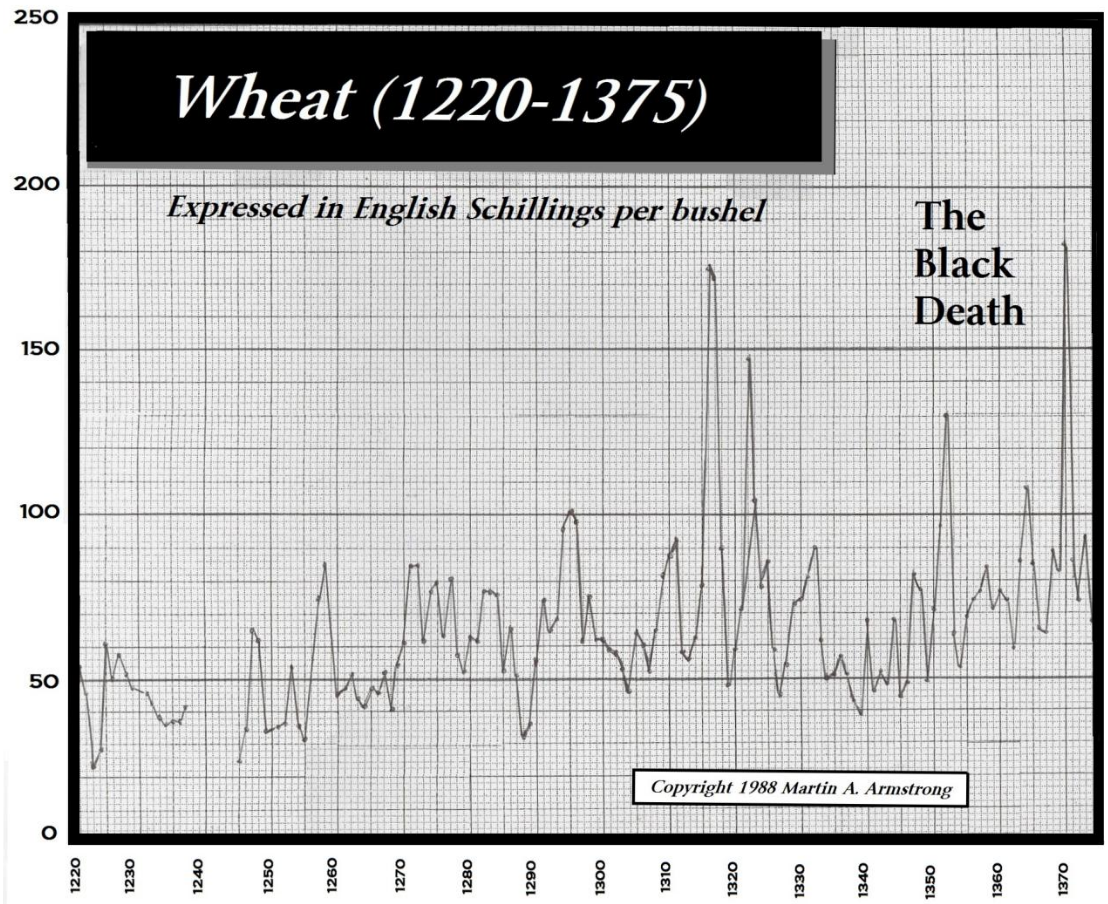
By no means is gold finished. Adjusted for inflation, the 1980 high stands at about $2300 today where interesting enough we have Bullish Yearly Reversals waiting for election. The national debt of the USA in 1980 was $907.7 billion, the Dow reached 1,000, and gold $875. Today, the national debt is about $17 trillion or an advance of 1888%, the Dow advance was 1500%, whereas gold's advance has been only 219%. This to date has been a rather poor hedge against inflation illustrating the point that gold is not a hedge against inflation, but instead a hedge against government instability. There must be the collapse in confidence in the currency to justify the rise in gold. The problem is that while some argue the dollar must collapse because it is fiat, that really does not stand the test of time when in fact the currencies in Asia have historically always been fiat. Money is simply a medium of exchange – that is all. It is not a store of wealth nor should it be. In order to fix the value of gold so it never rises, then everything else also has to be fixed and what you end up with is similar to a Communistic state.



If we look at copper, there has been an advance of 312% from the 1980 high 14890 to 46555. Then if we look at wheat in this chart, which is not an accumulative resource like gold but a constant renewable market, the 1980 high was 5608 whereas the highest level was reached in 2008 at 12913 showing an advance of 230%. Clearly, gold has remained within the general ballpark of all commodity advances overall. Despite the hype, we have not seen gold break out yet and that is not likely until we exceed $2300.

Identifying the truth first, enables us to now look at the future from a technical perspective. To see gold rise sharply, does this require the entire commkodity sector to advance in proportion? If that is the case, then and only then would we be looking at a systemic decline in the monetary system. In order to see gold rise alone as an alternative to money, which has actually never taken place systemically, it is hard to stich together the fundamental requirements for such an event in isolation. The vision of returning to some sort of a barter system as we see emerging in Greece, requires the collapse in public confidence or the austerity philosophy of reducing money support to support confidence in the debt.

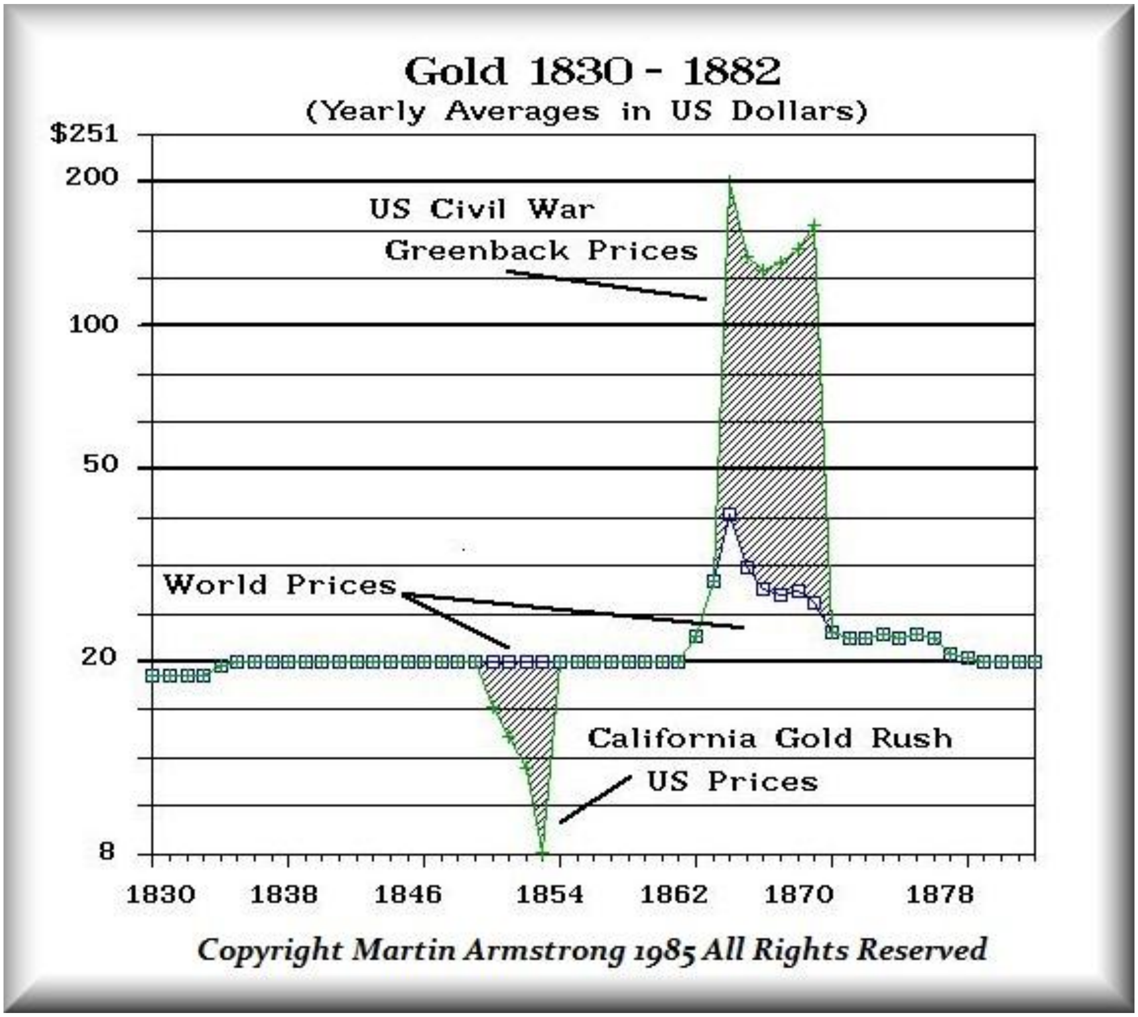
Are we headed into the brink of a full fledged Mad Max event? That would be the emergence of a Dark Age which has taken place in Greece, Rome (Western Europe) and Japan. In all three cases, what we emerged was effectively a period of barter void of money altogether with a duration of about 600 years. These Dark Ages tend to be the collapse in civilization where government **(PUBLIC)** refuses to reform and constantly grabs more and more power until they have aniliated the people **(PRIVATE)** sector.



We can see that commodities are never a straight line. All commodities, including gold, are in part tied to nature as the supply varies according to weather. In the case of gold, weather impacts the places exploration has been developed as well as the cost of extracting the metal. During the 1980s, one of my largest mining clients in Australia was offered a deal in Russia in Siberia. They turned down the prospect of mining gold in that region because of the weather and lack of infrastructure.

Here you can see wheat prices during the **Black Death** in England going back even further to the year 1220. We can see the abrupt thrusts upward and the high volatility associated with commodity prices. This means that when we look at gold into the future, we must understand that its nature is starkly different from charting the stock market. All commodities, including gold, are prone to abrupt advances and declines in short bursts of energy. Therefore, it is critical to understand that this is the charter of gold and as such a forecast that something will go exponential is **NORMAL** and not **ABNORMAL**.

To accomplish a **Phase Transition** in equities or anything else tends to require capital to concentrate in a single sector and region. Hence, we see the bubble in 1929 following World War II in the United States and the Japanese bubble in 1989. The Dow essentially doubled in value during the last 12 months of the rally. This was the Phase Transition. Nonetheless, both the 1929 rally in the Dow Jones Industrials and the 1989 in the Japanese Nikkei 225 took place with positive capital inflows. Gold does **NOT** require this type of capital movement. Instead, gold requires more of a shift in confidence than net capital inflows. <u>Gold is also a worldwide market that does not require capital to concentrate with a particular region or nation.</u>



Another problem with gold has been its use as money to varying degrees. This is also why we do not see gold appreciate with inflation when it is money. At that point in time, gold declines with inflation purchasing less when it is money. The **Panic of 1869** when gold rallied to $162 illustrates this point. That is the Greenback versus gold. Gold was no longer money, federal paper money replaced it during the Civil War. Thus, inflation took place and gold rose in purchasing power along with everything else as a free market. So gold functions in two ways depending upon its role within the monetary system. Currently, gold is a barbaric relic of the past and it is no longer money meaning it will rise and fall counter-trend to the currency.

Consequently, we must be careful when analyzing gold. Clearly, gold requires examination that is very careful. We must first understand what was the underlying monetary system at that point. This is absolutely critical. If gold was money, then during inflation, whatever money is at that moment, declines in purchasing power whereas it rises buying more assets during deflationary periods.

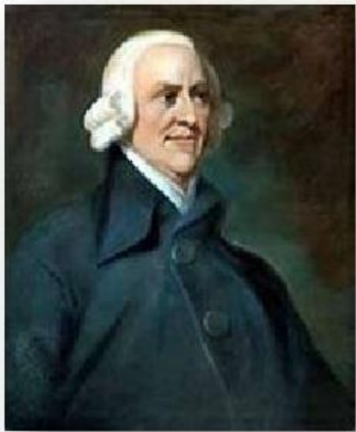
Philip V (1700-1724)

Spainish Fleet of 1715 Shipwreck Set

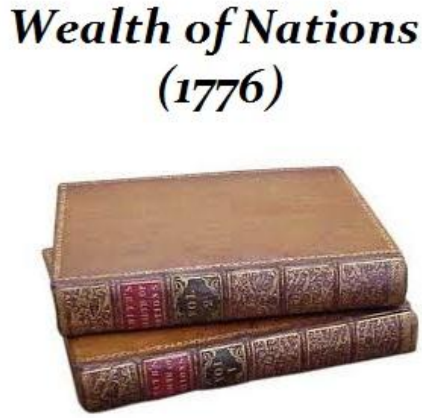
8, 4, 2, 1, Escudos Cob type

struck in Mexico 1714-32 all dated 1714

The discovery of gold in America resulted in creating major European continental inflation. The European economy also became addicted to the influx of both gold and silver. This increased the money supply tremendously. As the influx of precious metals began to subside, deflation emerged and this led to rising tensions within Europe. The observations of money and its supply began to take hold in Europe. This led to much debate. The Physiocrats in France during the 18th century argued that real wealth was agriculture. This prompted Adam Smith to write his Wealth of Nations to examine what really is money and the national productive wealth.



Adam Smith (1723-1790)

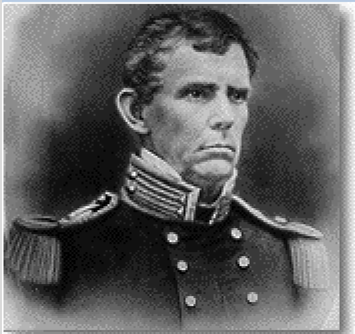


Therefore, to understand the future requires understanding **WHAT** precisely **MONEY** is from an unbiased perspective. As long as we continue to look at gold as a form of MONEY, then we cannot see the forest because of our myopic view of the tree. **MONEY** is really the total productive capacity of a nation. The available **WEALTH** of a nation can be used to exchange for some other object. That can be pure labor from digging a ditch, to the brainchild of a scientist. This includes whatever is desirable by another party willing to exchange something in return for that labor involved or for the idea.

Once we step back and realize that **MONEY** is simply the medium to exchange between to objects that can be tangible or intangible such as labor effort, we can then advance to the comprehension that gold is really just like everything else – a commodity. It will rise and fall in **VALUE** based upon supply and demand. It is not that complicated for that is the **ONLY** possible explanation when we view the entire history of money and civilization from the outset. Even when gold was used as MONEY in coin form, there were $50 coins produced in California whereas $20 was the largest denomination elsewhere. Inflation was much higher at the source where gold became common. Hotel rooms in New York at the time were $1 a day and a room for rent was about $20 a month. According to the report of Colonel Richard Barnes Mason in 1848, he reported room rents at that time were $100 a month and rose to about $250 over the next two years. The inflation in California was substantially higher than anywhere else, which is why there were $50 coins.

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

OFFICIAL REPORT ON THE GOLD MINES.



Col. Richard Barnes Mason

This is the official account of a visit paid to the gold region in July 1848 by Colonel Richard Barnes Mason, who had been appointed to the military command in California, and wrote his report for the adjutant-general at Washington. It is dated from headquarters at Monterey, August 17, 1848.

[To:] Brigadier-General R. Jones, Adjutant-General, U.S.A., Washington, D.C.

Sir,—I have the honour to inform you that, accompanied by Lieut. W. T. Sherman, 3rd Artillery, A.A.A. General, I started on the 12th of June last to make a tour through the northern part of California. We reached San Francisco on the 20th, and found that all, or nearly all, its male inhabitants had gone to the mines. The town, which a few months before was so busy and thriving, was then almost deserted. On the evening of the 24th the horses of the escort were crossed to Saucelito in a launch, and on the following day we resumed the journey, by way of Bodega and Sonoma, to Sutter's Fort, where we arrived on the morning of July 2. Along the whole route mills were lying idle, fields of wheat were open to cattle and horses, houses vacant, and farms going to waste. At Sutter's there was more life and business. Launches were discharging their cargoes at the river and carts were hauling goods to the fort, where already were established several stores, a hotel, etc. Captain Sutter had only two mechanics in the employe—wagon-maker and a blacksmith, whom he was then paying $10 per day. Merchants pay him a monthly rent of $100 per room, and while I was there a two-story house in the fort was rented as a hotel for $500 a month.

On the 5th we arrived in the neighbourhood of the mines, and proceeded twenty-five miles up the American Fork, to a point on it now known as the Lower Mines, or Mormon Diggings. The hill sides were thickly strewn with canvas tents and bush-harbours; a store was erected, and several boarding shanties in operation. The day was intensely hot, yet about 200 men were at work in the full glare of the sun, washing for gold—some with tin pans, some with close woven Indian baskets, but the greater part had a rude machine known as the cradle. This is on rockers, six or eight feet long, open at the foot, and its head had a coarse grate, or sieve; the bottom is rounded, with small cleets nailed across. Four men are required to work this machine; one digs the ground in the bank close by the stream; another carries it to the cradle, and empties it on the grate; a third gives a violent rocking motion to the machine, whilst a fourth dashes on water from the stream itself. The sieve keeps the coarse stones from entering the cradle, the current of water washes off the earthy matter, and the gravel is gradually carried out at the foot of the machine, leaving the gold mixed with a heavy fine black sand above the first cleets. The sand and gold mixed together are then drawn off through auger holes into a pan below, are dried in the sun, and afterwards separated by blowing off the sand. A party of four men, thus employed at the Lower Mines, average 100 dollars a-day. The Indians, and those who have nothing but pans or willow baskets, gradually wash out the earth, and separate the gravel by hand, leaving nothing but the gold mixed with sand, which is separated in the manner before described. The gold in the Lower Mines is in fine bright scales, of which I send several specimens.

As we ascended the south branch of the American fork, the country became more broken and mountainous, and twenty-five miles below the lower washings the hills rise to about 1000 feet above the level of the Sacramento Plain. Here a species of pine occurs, which led to the discovery of the gold. Captain Sutter, feeling the great want of lumber, contracted in September last with a Mr. Marshall to build a saw-mill at that place. It was erected in the course of the past winter and spring—a dam and race constructed; but when the water was let on the wheel, the tail race was found to be too narrow to permit the water to escape with sufficient rapidity. Mr. Marshall, to save labour, let the water directly into the race with a strong current, so as to wash it wider and deeper. He effected his purpose, and a large bed of mud and gravel was carried to the foot of the race. One day Mr. Marshall, as he was walking down the race to this deposit of mud, observed some glittering particles at its upper edge; he gathered a few, examined them, and became satisfied of their value. He then went to the fort, told Captain Sutter of his discovery, and they agreed to keep it secret until a certain grist-mill of Sutter's was finished. It, however, got out and spread like magic. Remarkable success attended the labours of the first explorers, and, in a few weeks, hundreds of men were drawn thither. At the time of my visit, but little more than three months after its first discovery, it was estimated that upwards of four thousand people were employed. At the mill there is a fine deposit or bank of gravel, which the people respect as the property of Captain Sutter, though he pretends to no right to it, and would be perfectly satisfied with the simple promise of a pre-emption on account of the mill which he has built there at a considerable cost. Mr. Marshall was living near the mill, and informed me that many persons were employed above and below him; that they used the same machines as at the lower washings, and that their success was about the same—ranging from one to three ounces of gold per man daily. This gold, too, is in scales a little coarser than those of the lower mines. From the mill Mr. Marshall guided me up the mountain on the opposite or north bank of the south fork, where in the bed of small streams or ravines, now dry, a great deal of coarse gold has been found. I there saw several parties at work, all of whom were doing very well; a great many specimens were shown me, some as heavy as four or five ounces in weight; and I send three pieces, labeled No. 5, presented by a Mr. Spence. You will perceive that some of the specimens accompanying this report hold mechanically pieces of quartz—that the surface is rough, and evidently moulded in the crevice of a rock. This gold cannot have been carried far by water, but must have remained near where it was first deposited from the rock that once bound it. I inquired of many if they had encountered the metal in its matrix, but in every instance they said they had not; but that the gold was invariably mixed with wash-gravel, or lodged in the crevices of other rocks. All bore testimony that they had found gold in greater or less quantities in the numerous small gullies or ravines that occur in that mountainous region.

On the 7th of July I left the mill and crossed to a small stream emptying into the American fork, three or four miles below the saw-mill. I struck the stream (now known as Weber's Creek) at the washings of Sunol and Company. They had about thirty Indians employed, whom they pay in merchandise. They were getting gold of a character similar to that found in the main fork, and doubtless in sufficient quantities to satisfy them. I send you a small specimen, presented by this Company, of their gold. From this point we proceeded up the stream about eight miles, where we found a great many people and Indians, some engaged in the bed of the stream, and others in the small side valleys that put into it. These latter are exceedingly rich, two ounces being considered an ordinary yield for a day's work. A small gutter, not more than 100 yards long by four feet wide, and two or three deep, was pointed out to me as the one where two men (W. Daly and Percy M'Coon) had a short time before obtained. 17,000 dollars' worth of gold. Captain Weber informed me, that he knew that these two men had employed four white men and about 100 Indians, and that, at the end of one week's work, they paid off their party, and had left 10,000 dollars' worth of this gold. Another small ravine was shown me, from which had been taken upwards of 12,000 dollars' worth of gold. Hundreds of similar ravines, to all appearances, are as yet untouched. I could not have credited these reports had I not seen, in the abundance of the precious metal, evidence of their truth. Mr. Neligh, an agent of Commodore Stockton, had been at work about three weeks in the neighbourhood, and showed me, in bags and bottles, 2000 dollars' worth of gold; and Mr. Lyman, a gentleman of education, and worthy of every credit, said he had been engaged with four others, with a machine, on the American fork, just below Sutter's Mill, that they worked eight days, and that his share was at the rate of fifty dollars a-day, but hearing that others were doing better at Weber's Place, they had removed there, and were then on the point of resuming operations.

The country on either side of Weber's Creek is much broken up by hills, and is intersected in every direction by small streams or ravines which contain more or less gold. Those that have been worked are barely scratched, and, although thousands of ounces have been carried away, I do not consider that a serious impression has been made upon the whole. Every day was developing new and richer deposits; and the only impression seemed to be, that the metal would be found in such abundance as seriously to depreciate in value.

On the 8th July I returned to the lower mines, and eventually to Monterey, where I arrived on the 17th of July. Before leaving Sutter's, I satisfied myself that gold existed in the bed of the Feather River, in the Yuba and Bear, and in many of the small streams that lie between the latter and the American fork; also, that it had been found in the Consumnes, to the south of the American fork. In each of these streams the gold is found in small scales, whereas in the intervening mountains it occurs in coarser lumps.

Mr. Sinclair, whose rancho is three miles above Sutter's on the north side of the American, employs about fifty Indians on the north fork, not far from its junction with the main stream. He had been engaged about five weeks when I saw him, and up to that time his Indians had used simply closely-woven willow baskets. His net proceeds (which I saw) were about 16,000 dollars' worth of gold. He showed me the proceeds of his last week's work—14 lbs. avoirdupois of clean-washed gold.

The principal store at Sutter's fort, that of Brannan and Co., had received in payment for goods 36,000 dollars' worth of this gold from the 1st of May to the 10th of July. Other merchants had also made extensive sales. Large quantities of goods were daily sent forward to the mines, as the Indians, heretofore so poor and degraded, have suddenly become consumers of the luxuries of life. I before mentioned that the greater part of the farmers and rancheros had abandoned their fields to go to the mines. This is not the case with Captain Sutter, who was carefully gathering his wheat, estimated at 40,000 bushels. Flour is already worth, at Sutter's, 36 dollars a-barrel, and will soon be 50. Unless large quantities of breadstuffs reach the country much suffering will occur; but as each man is now able to pay a large price, it is believed the merchants will bring from Chili and the Oregon a plentiful supply for the coming winter.

The most moderate estimate I could obtain from men acquainted with the subject was, that upwards of 4,000 men were working in the gold district, of whom more than one-half were Indians, and that from 30,000 to 50,000 dollars' worth of gold, if not more, were daily obtained. The entire gold district, with very few exceptions of grants made some years ago by the Mexican authorities, is on land belonging to the United States. It was a matter of serious reflection to me, how I could secure to the Government certain rents or fees for the privilege of securing this gold; but upon considering the large extent of country, the character of the people engaged, and the small scattered force at my command, I resolved not to interfere, but permit all to work freely, unless broils and crimes should call for interference.

The discovery of these vast deposits of gold has entirely changed the character of Upper California. Its people, before engaged in cultivating their small patches of ground, and guarding their herds of cattle and horses, have all gone to the mines, or are on their way thither. Labourers of every trade have left their work-benches, and tradesmen their shops; sailors desert their ships as fast as they arrive on the coast; and several vessels have gone to sea with hardly enough hands to spread a sail. Two or three are now at anchor in San Francisco, with no crew on board. Many desertions, too, have taken place from the garrisons within the influence of these mines; twenty-six soldiers have deserted from the post of Sonoma, twenty-four from that of San Francisco, and twenty-four from Monterey. I have no hesitation now in saying, that there is more gold in the country drained by the Sacramento and San Joaquin Rivers than will pay the cost of the present war with Mexico a hundred times over. No capital is required to obtain this gold, as the labouring man wants nothing but his pick and shovel and tin pan, with which to dig and wash the gravel, and many frequently pick gold out of the crevices of rocks with their knives, in pieces of from one to six ounces.

Gold is also believed to exist on the eastern slope of the Sierra Nevada; and, when at the mines, I was informed by an intelligent Mormon that it had been found near the Great Salt Lake by some of his fraternity. Nearly all the Mormons are leaving California to go to the Salt Lake; and this they surely would not do unless they were sure of finding gold there, in the same abundance as they now do on the Sacramento.

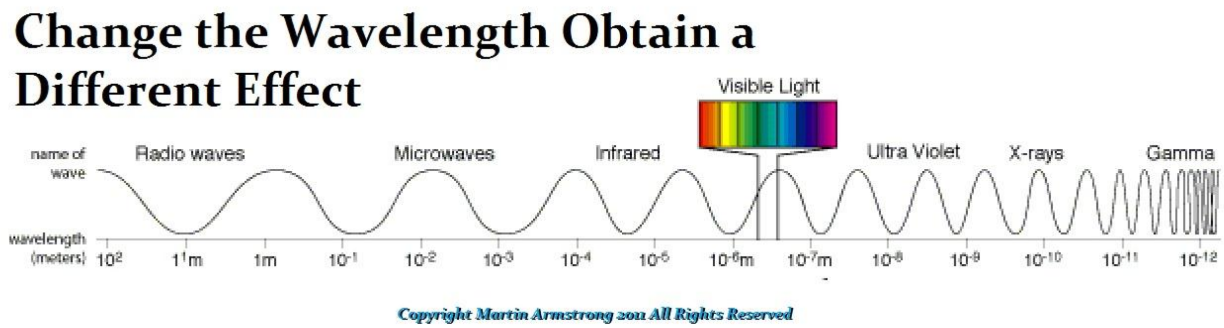
I have the honour to be,

Your most obedient Servant,

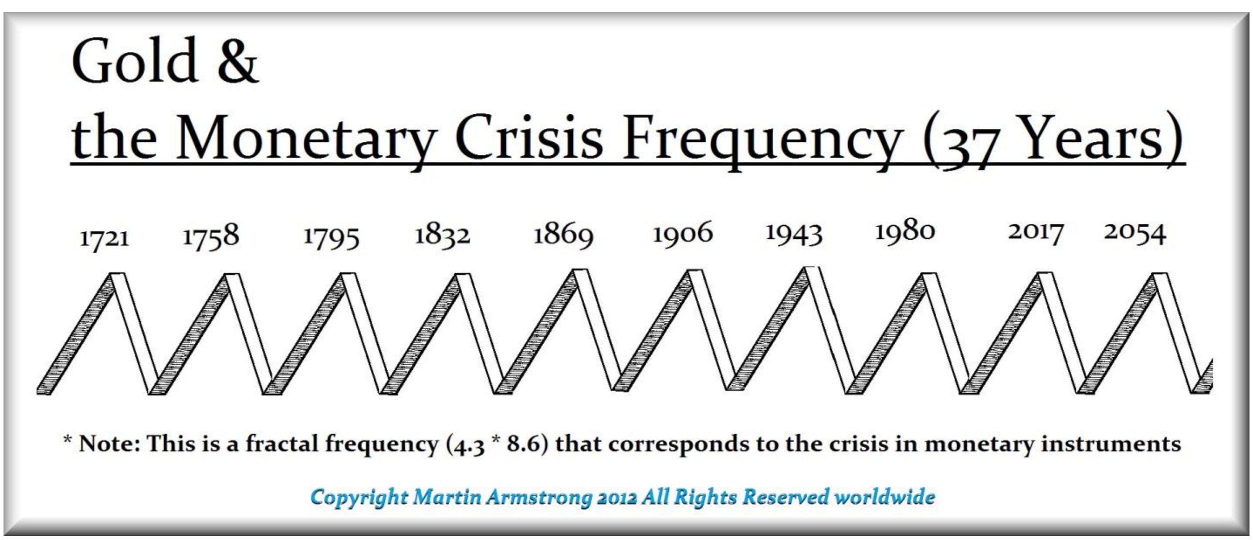
R. B. MASON, Colonel 1st Dragoons, commanding.

Kellogg & Humbert California Gold Ingot

recovered from the S.S. Central America



In Cyclical Analysis, you obtain a different effect if you alter the wavelength, which is the distance between peaks within the wave formation. Using the electro-magnetic wave structure of light, we can see the different effects obtained by changing the wavelength. Increasing or decreasing the wavelength and you get everything from radio and TV to x-rays and microwaves. Cyclical analysis is consistent in this manner. Regardless of the medium we example, how cyclical wave formations act does not change based upon what you are studying. Therefore, even in economics, we obtain different effects with different wavelengths. This is simple the design within the structure of everything.

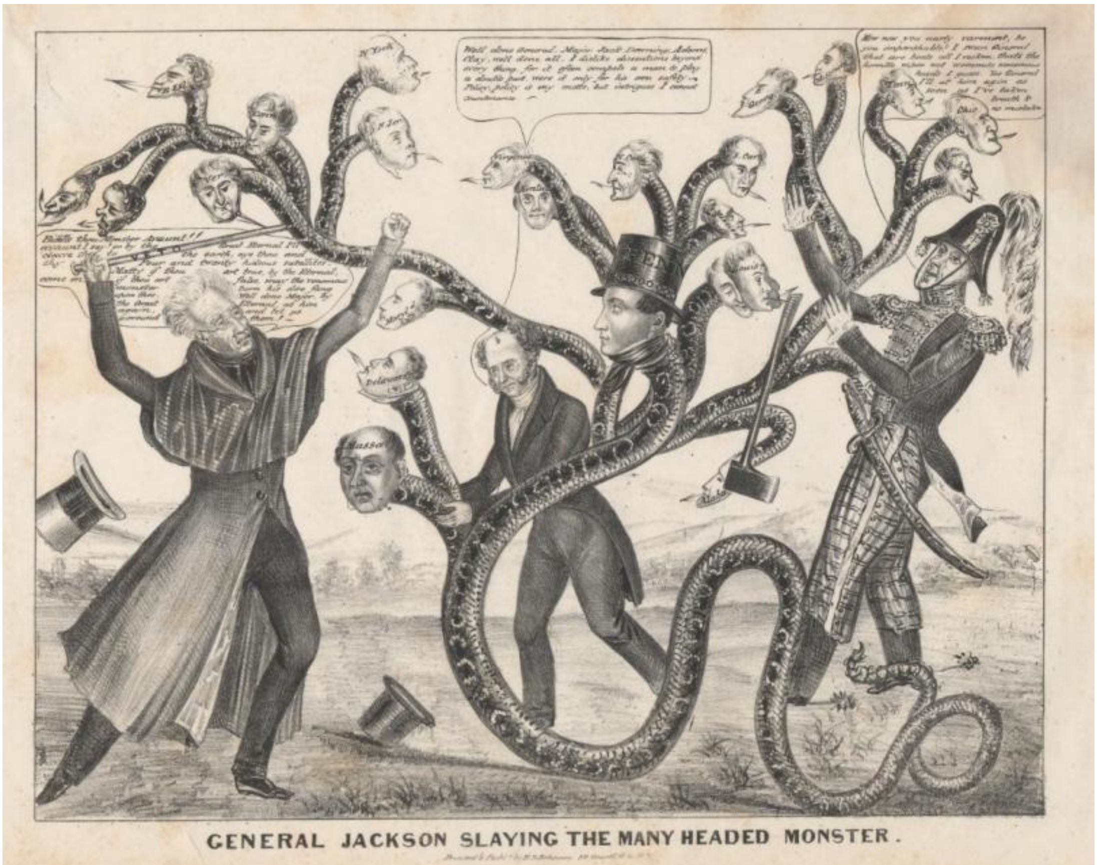


When we look at gold from the monetary perspective, using the **Monetary Crisis Frequency** of 37 years we get a series of dates that warns us about 2017. The frequency is a fractal structure (4.3 * 8.6) giving us 37 years that where we find various financial crisis events in the monetary system. For example, 1971 was the collapse of Bretton Woods and 37 years before was 1934 where the devaluation of the dollar was carried out by Roosevelt. Moving 37 years back once again brings us to 1897 when J.P. Morgan bailed-out the US Treasury in 1896. Using the dates from gold price movement, we have the **Panic of 1720** with the **South Sea Bubble** in London and the **Mississippi Bubble** in Paris. Of course, 1758 was the first sighting of Halley's comet by Johann Georg Palitzsch during its return while the British troops occupy Calcutta India and Austria took Berlin. The British also conquered Quebec, Canada. The first American life insurance company was incorporated in Philadelphia making that city also the insurance capital in the USA. This also marked the 27th observation of Halley’s Comet, which returns every 75-76 years. Battle of Prague in 1757 marks defeat of the Austrians by Frederick the Great of Prussia.

Frederick II the Great
(b 1712; King Prussia 1740–1786)

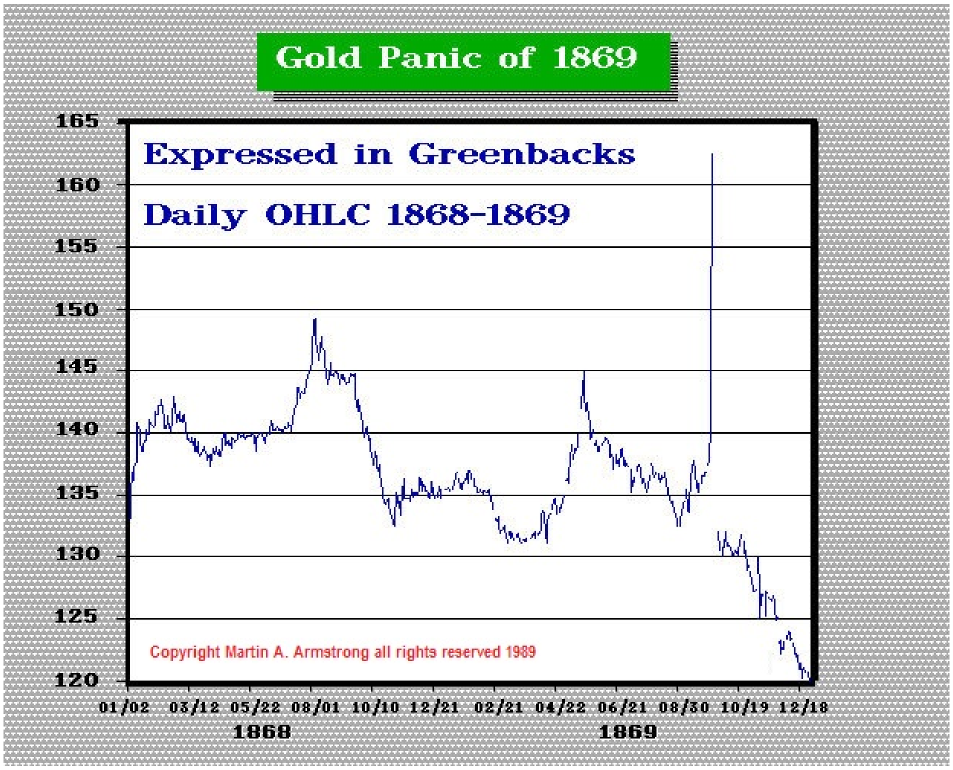
By 1795, there is the Democratic revolution in Amsterdam, which ended the oligarchy as democracy was sweeping the Western world. In 1795, the United States was finally able to settle its debts with the French Government with the help of James Swan, an American banker who privately assumed French debts on July 9th, 1795 at a slightly higher interest rate. Swan paid off the U.S. debt to France amounting to $2,024,899. Swan then resold these debts at a profit on domestic U.S. markets. The United States no longer owed money to foreign governments, although it continued to owe money to private investors both in the United States and in Europe. Swan had returned to the United States in 1795. However, he went back to France in 1798 where they imprisoned him in Paris for debt in 1808 and threw him into debtor’s prison, where he remained until his release in 1830 just before he died in Paris that same year.

James Swan
(1754–1830)



On May 7th, 1832, Greece became an independent republic. The year 1832 also marked in the United States the first Democratic National Convention in Baltimore after the party split. It was on July 10th, 1832 when President Andrew Jackson vetoed legislation to re-charter Second Bank of US setting in motion the collapse of a stable monetary system that would culminate in the Panic of 1837. By destroying the Bank of the United States, he moved deposits of the government to state banks. This encouraged an explosion of state banks all issuing their own money creating total havoc. This entire period became known as the period of Broken Bank Notes. Every bank was issuing money and no one knew what was real from counterfeit, or what banks were legitimate and what was a fraud.

Private Broken Banknotes *"shinplasters"* of the Panic of 1837



This brings us to the **Panic of 1869**. Gold had actually peaked in 1864 near the $200 level expressed in Greenbacks and was declining. It was during the decline when the "Gold Ring" was pushing gold higher in an attempt to force the USA to accept a much higher price for gold when it would have to return to the Gold Standard. The idea was to compel the government to accept whatever price gold was trading at on the New York Stock Exchange at that moment in time. James Fisk (1835-1872) and Jay Gould (1836-1892) managed to get gold to rally up to $162 an ounce in the middle of a bear market on September 24th, 1869. This was the financial **Panic of 1869** where bankers were being dragged out to the streets and hung and they had to send in troops to suppress the riot, which gave rise to the term "***Black Friday***".

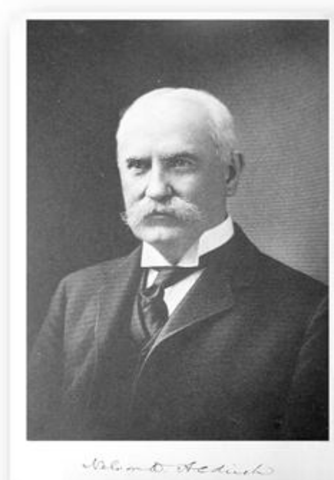

James Fisk (1835-1872)


Jay Gould (1836-1892)

The Great 1906 San Francisco Earthquake - 5:12 AM – April 18, 1906

The next target market was the Great 1906 San Francisco Earthquake, which set the stage for the **Panic of 1907** and ultimately the establishment of the Federal Reserve. The claims were on the West Coast but the Insurance Companies were on the East Coast. The shift in capital flows led to shortages of cash in New York. Ultimately, when the Federal Reserve was originally designed it had 12 branches and each maintained its own interest rates. Consequently, to prevent a drain of capital in one region, each branch would act accordingly. If there was too much cash in one region the branch would lower interest rates. If there was a shortage of cash in a region, the branch would raise interest rates locally. This was seen as using the interest rate differentials to attract or deflect capital flows domestically.

A **National Monetary Commission** was formed following the Panic of 1907 and the Republican leader in the Senate, Senator Nelson Aldrich (1841-1915) took charge. Aldrich was a brilliant man who was passionate about revising the American financial system. In 1910, Aldrich met with Frank Vanderlip of **National City Bank** (***Citibank***), Henry Davison of **Morgan Bank**, and Paul Warburg of the **Kuhn, Loeb Investment House** secretly at **Jekyll Island**, a resort island off the coast of Georgia, to discuss and



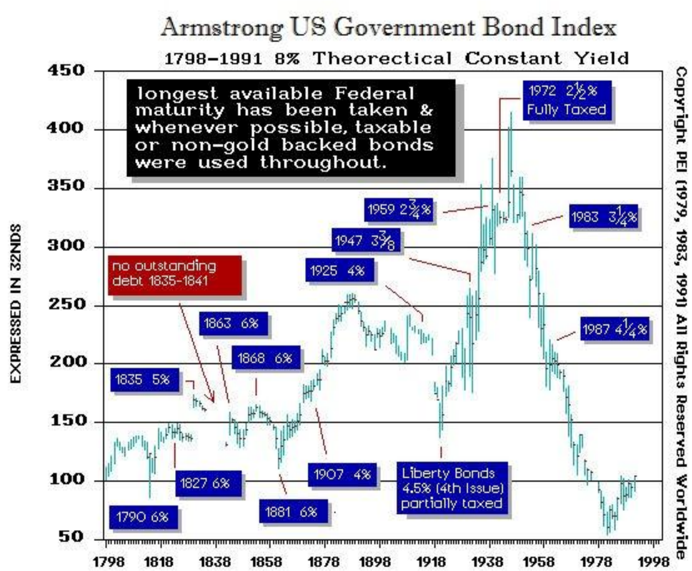
Nelson W. Aldrich (1841-1915)

formulate banking reform, including plans for a form of central banking that would accomplish the role of J.P. Morgan played during the ***Panic of 1907***. The meeting was held in secret because the participants knew that any plan they generated would be rejected automatically in the House of Representatives given the intense hatred of the bankers and Wall Street in the festering Marxist/Progressive atmosphere. Unfortunately, because this meeting was secret involving Wall Street, the whole **Jekyll Island** affair has always been cloaked in conspiracy theories.

Jekyll Island Club

The political problem with the **Aldrich Plan** was that the regional banks would be controlled individually and nationally by bankers, a prospect that did not sit well with the populist Democratic Party or with President Wilson. The Democrats and Wilson were fearful that the reforms would grant more control of the financial system to bankers and the politicians could not meddle as they saw fit. The history of the First and Second **Bank of the United States** was repeating. It was that Political-Economy that cannot be divorced.

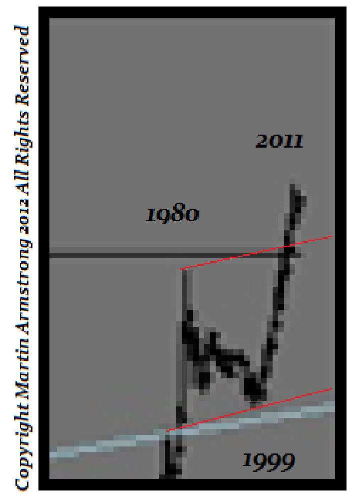
Congress usurped the structure of the Federal Reserve and created a single interest rate that was to be established in Washington. He further mandated that the Federal Reserve support the US bond market during World War II at par, which was not rescinded until 1951. Consequently, Roosevelt pegged the bonds to defeat the free market movement.



The next turning point was 1943. It may have been greatly overlooked, but this is when the US & Britain relinquished extraterritorial rights in China. It is also when Hitler declared "Total War" as he began transporting Jews from Amsterdam to concentration camp Vught. It was also when FDR & Winston Churchill conferred in Casablanca concerning WW II and on January 15th, 1943, the then World's largest office building with an air conditioning system, Pentagon, completed. The free markets were totally suppressed.

Of course, the following year 1944 saw the start of Bretton Woods and in 1945 the formal beginning of the IMF and World Bank took place following the Bretton Woods design. It was 26 years later that the Bretton Woods System collapsed in 1971 with the birth of the floating exchange rate system after they fixed the dollar to gold, but failed to restrain the quantity of dollars redeemable in gold.

1999 Retest of the Black Death Channel

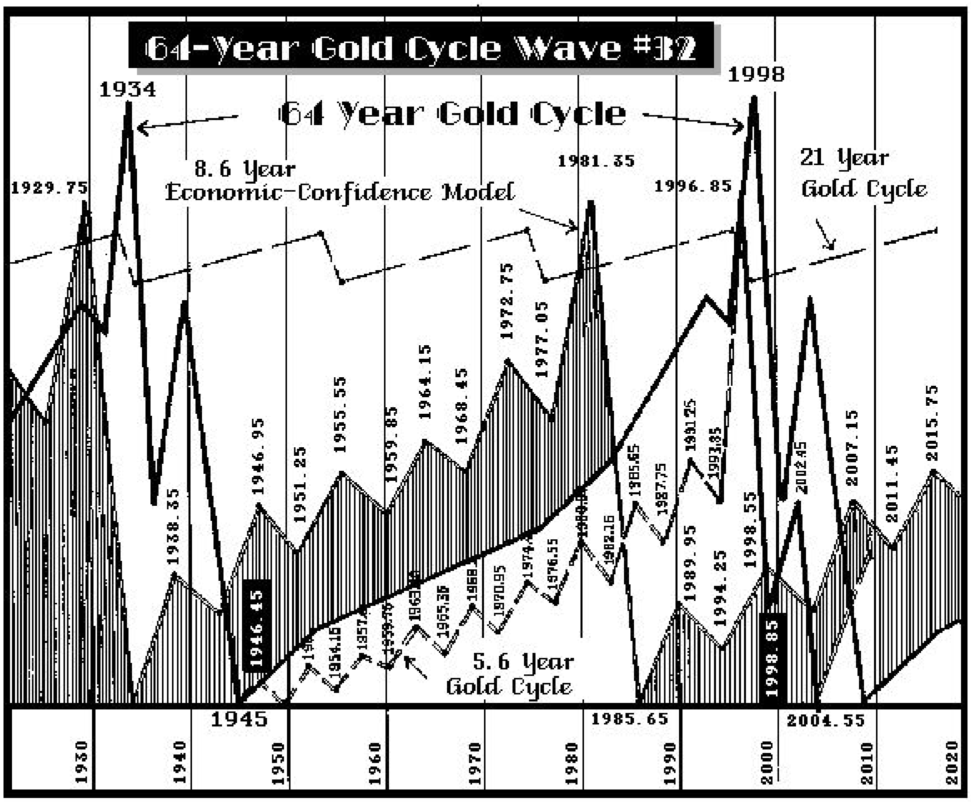


This brings us to the first floating exchange rate system rally where gold rises from just under \$35 in 1970 to \$875 by 1980 on January 21st, 1980. This conformed to the 37-year frequency and then a 19-year decline unfolded into the intraday low in 1999.

The 1999 low was a nice retest of the Black Death Channel after the breakout into 1980. A parallel from the Breakline drawn in red from the 1980 is just above the \$1,000 level. A retest of that now going into 2013 is likely.

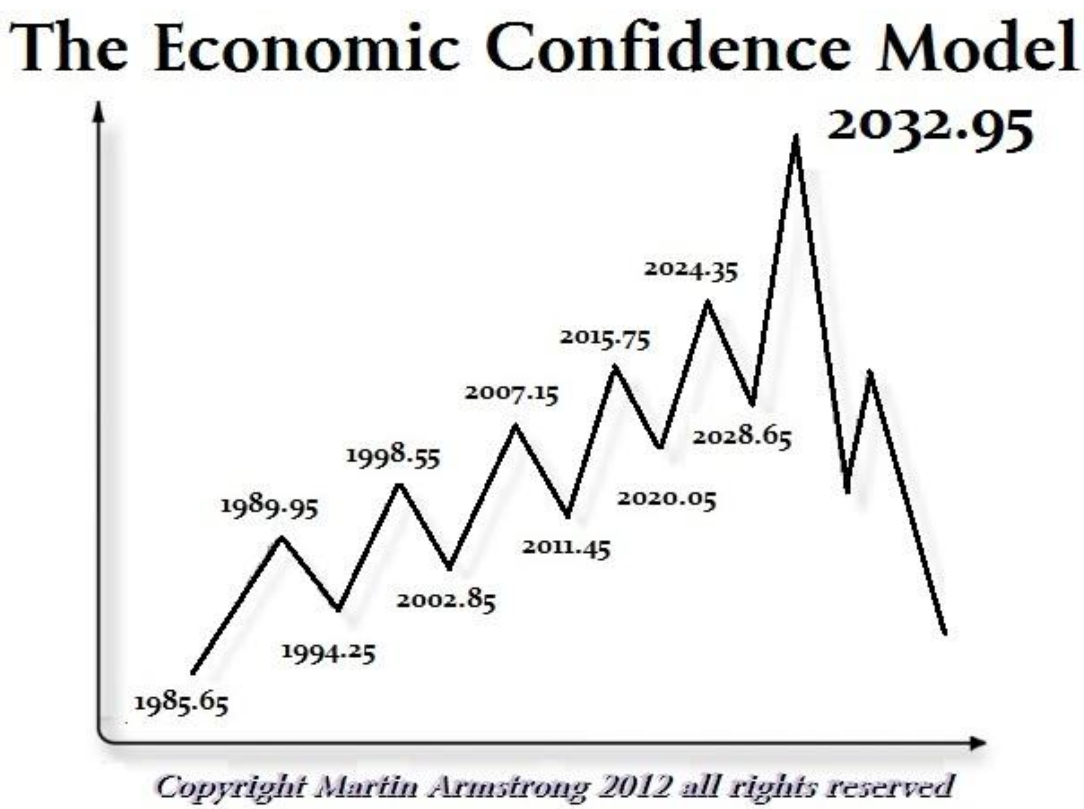
What the future appears to hold is another turning point is showing up for 2017 on this 37-year frequency as well as within the basket of cyclical models reflected within the **Forecasting Array**. However, gold has not fully separated itself from this role as an alternative form of money. The wild stories of no gold in Fort Knox to claims that the inventory at COMEX is foretelling the death of "paper gold" have only kept gold in the tin-foil-hat crowd and out of mainstream investment. The more desperate these claims become, the more gold is relegated to the not ready for prime time investment category. Whether there is any gold in Fort Knox is just not relevant since government will never admit that if it were true so it is a claim that can never be proven. Insofar as the death of "paper gold" is concern that is another wild exaggeration. ALL futures markets function the same way. To suggest that gold alone has been suppressed because there are more "paper gold" contracts outstanding than gold is pointless. The only way "paper gold" would cease to exist is if the total financial markets evaporated in which case gold would not be worth very much for how would you spend it if there was no society?

We have to stay within the bounds of reality and not chase visions in the middle of the night. We need to turn on the lights. The system is collapsing from fiscal mismanagement advocated by Marx and Keynes. That is bad enough. It will not matter what is in Fort Knox. The only thing that is never wrong is always the markets. The key is just to observe and listen. Everything is for a reason. Gold will rise, but not until everything is lined up because to fulfill the **Economic Confidence Model** going into 2032 with the collapse in all faith in government and the reformation of government as took place with each previous turning point, we need the mainstream crowd to jump – not just the Goldbugs.



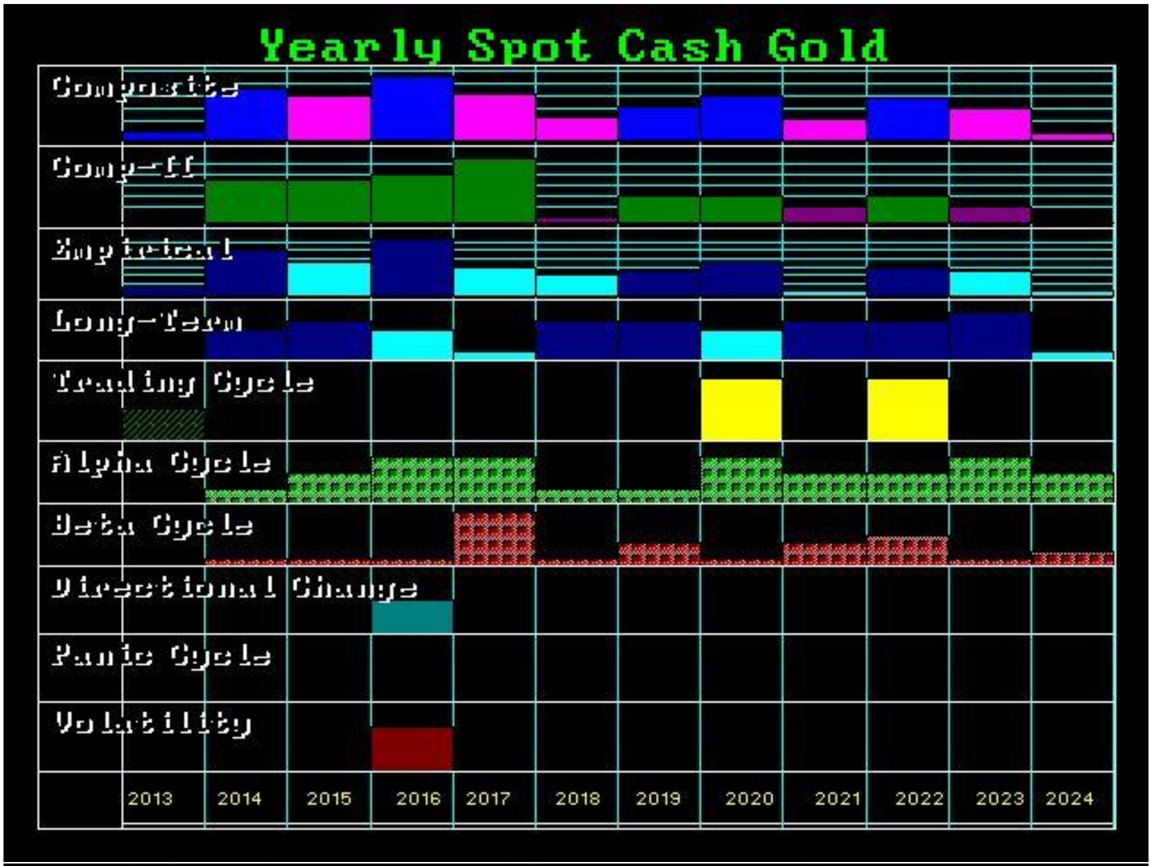
THE POSSIBLE 2016 LOW

The most difficult aspect of forecasting gold has been its cross-dressing tendencies of being sometimes money and sometimes a commodity. While gold was predominately a free floating medium of exchange since about 600BC meaning that while it is money the rises in purchasing power during economic declines, it was rarely ever **FIXED** in the sense of a gold standard. Nevertheless, this flipping back and forth has taken its toll insofar as what are were actually dealing with at any particular point in time. What is fascinating, however, is the tendency to be prone toward cycle inversions meaning the same cycle targets work, but instead of a high we get a low or the other way around. Roosevelt devalued the dollar in 1934 raising the "official" price from $20.67 to $35. Was this really a high or low? It depends upon the perspective. If we view it as money, it was a low since it created inflation. From a gold pricing perspective, it was a high in price thanks to inflation. The next turning point was 1998, which produced in high in **MONEY** since gold made its 19 year low in 1999. The year 1998 was the collapse of Russia that sent the dollar higher and the collapse of **Long-Term Capital Management** took place in September that year. Staying with that wave, the bottom projected was 2011, which in **MONEY** terms produced the low and the high in gold. Consequently, the targets do not change, but what you get flips to the opposite – a **Cycle Inversion**.



The Economic Confidence Model is still the dominant factor since we are facing a collapse in government on a global wide scale. We are confronted with the fall of Marxism-Keynesianism whereby these two theories both justified government as being capable of managing the economy and eliminating the business cycle. These theories have resulted in the death of far more people and the misery of more than 50% of the world population. Despite all of this havoc, there are still so many advocating that we destroy the free markets and the answer is more government control bringing George Orwell's 1984 into full focus. What we face in 2032 is nothing shy of monumental for society as a whole.

When we look at our computer models, 2017 is showing up as a **Panic Cycle** warning that we may see major volatility ahead. It is entirely possible that what lies on the horizon is a major dollar rally **FIRST** as Europe and Japan meltdown. This could prove to be devastating for gold if we see a 2013 closing **BELOW** at least 14340. A closing at year-end **BELOW** 13100 would tend to be significant for any new low in 2014 could set the stage for a 5-year decline making the low in 2016. This would then extend the entire cycle making 2017 not the high, but the start of a breakout that will culminate in 2032.


Yearly Spot Cash Gold
Composite
Comp-II
Empirical
Long-Term
Trading Cycle
Alpha Cycle
Beta Cycle
Directional Change
Panic Cycle
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2013
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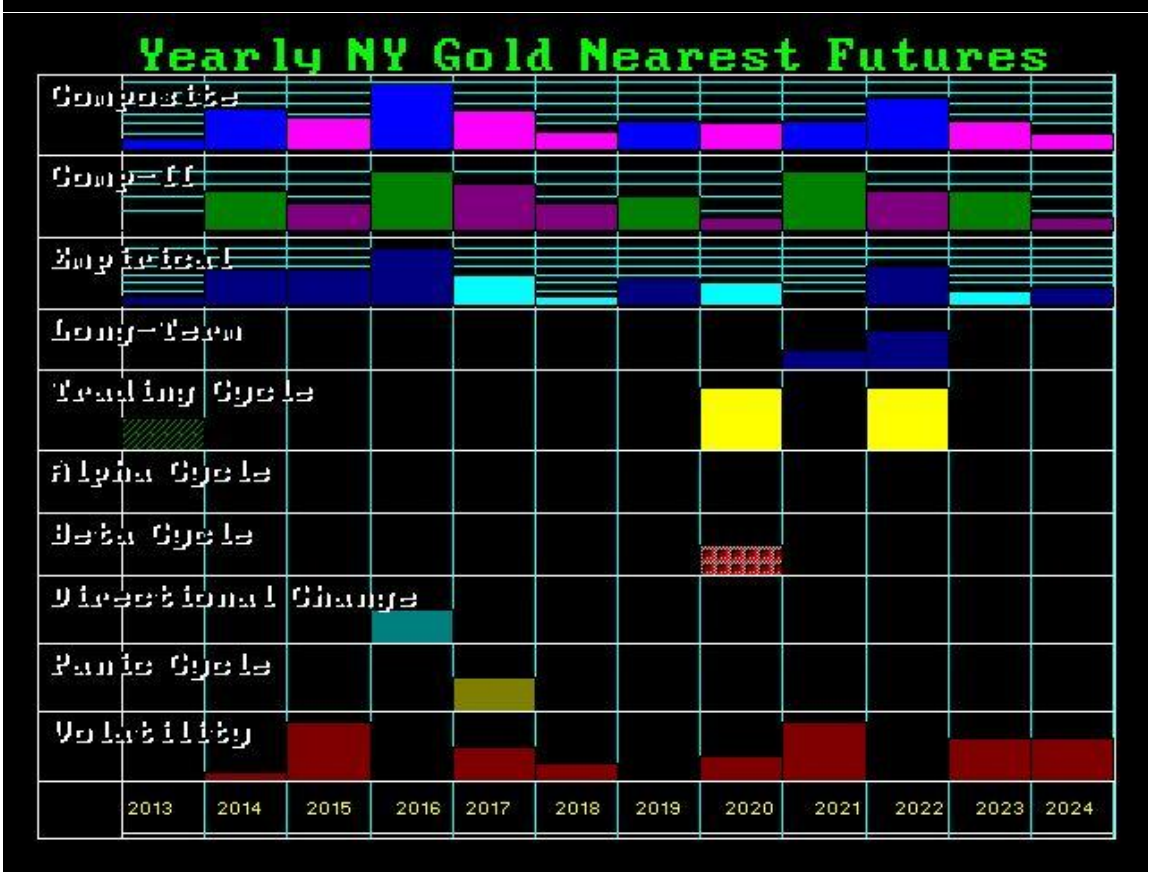
Yearly NY Gold Nearest Futures
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2013
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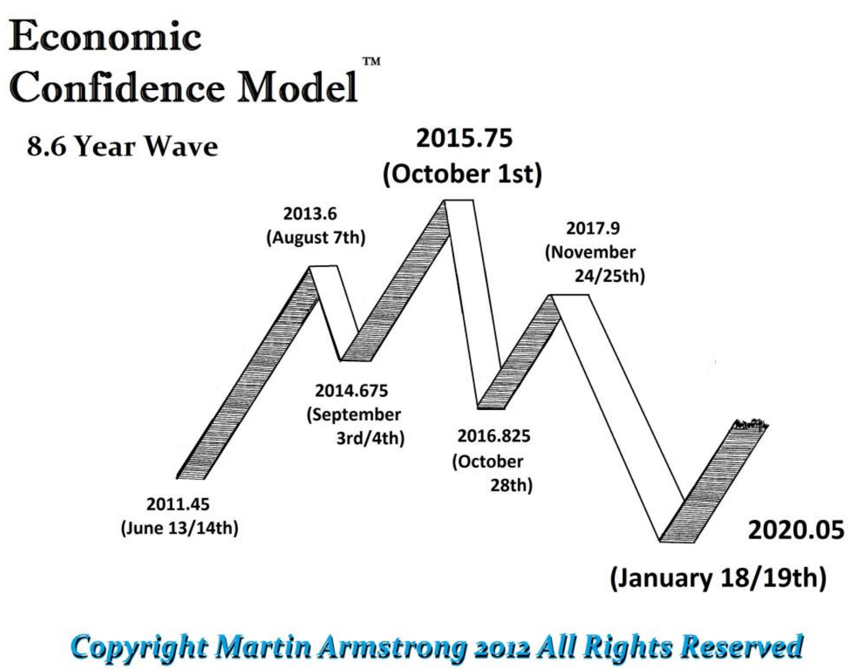
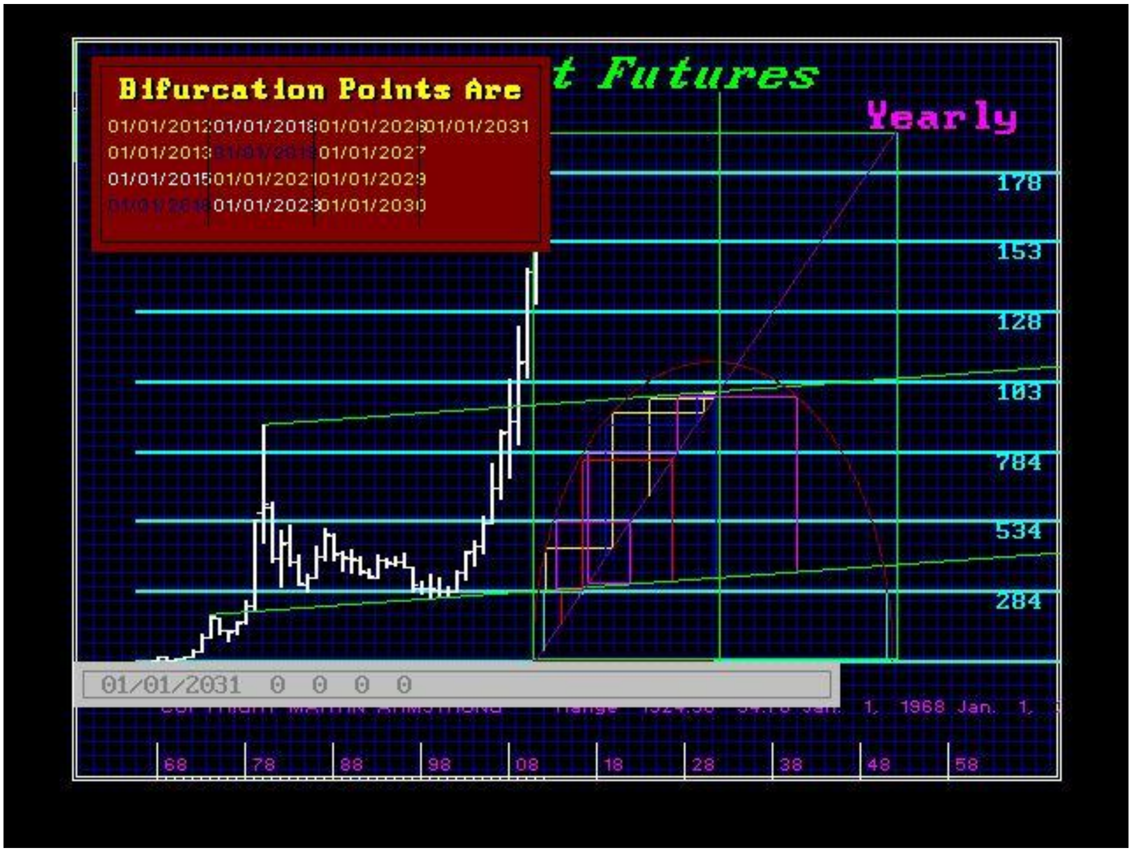
The reason we must address this possibility is the excessive bullishness. The onslaught of perpetual TV advertisements and the fact that we have been the sole short-term bear who has had nothing but arrows fired our way. Even the Goldbug radio shows try to ban anything we have to say acting like the government trying desperately to silence anything contrary to what they want people to believe. The blitzkrieg of dangerous fundamentals spouted out with every stitch of any event always being portrayed as perpetually bullish is highly perilous to the financial wellbeing of listeners. The continuous view that gold can only rise because of the Fed expansion is mind numbing. So many refuse to consider there is ever a possible downside and it is this degree of excessive bullishness that increases the risk of an extended decline.

Here we have provided two **Forecasting Arrays** using two entirely different databases. This is not personal opinion - it simply is what it is no matter how much the gold promoters only want people who preach up-up-and-away every day. The first is a view of cash gold through a reconstructed database beginning with the year 1264. We are showing clearly the strongest turning point is 2016 with a **Directional Change** and high volatility targeting that period.

Comparing this to the second **Forecasting Array** based upon nearest futures blended with start of the two-tier gold system in London that began the free market back to 1968, we still see 2016 as the main turning point but 2017 is a **Panic Cycle**. Notice the volatility is rather high for 2015 and the again in 2021.

The Trading Cycle targets on both perspectives highlight the years 2020 and 2022 corresponding to the turn in the **Economic Confidence Model.** The 2020 target is the equivalent of 2011 when gold peaked and the economy began to turn around. What is fascinating is that gold reached its peak with the bottom of the ECM in 2011 showing to some degree it is still acting as an alternative currency rising in value during economic declines and falling during the inflationary expansions as the Dow took off to new highs.



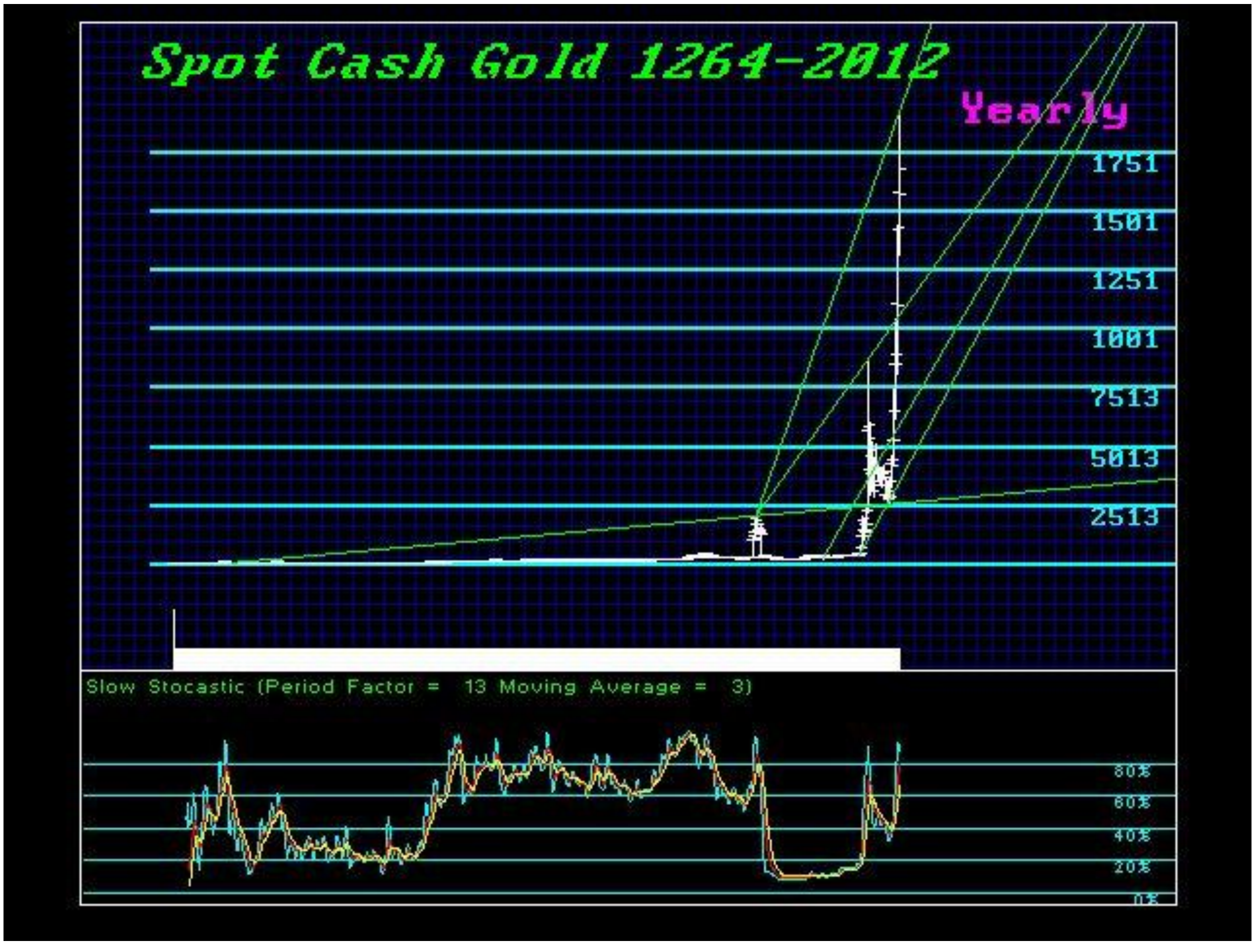


When we look at our **Chaos Models**, the interesting aspect is gold goes chaotic in 2031 using the bifurcation model. This lines up rather nicely with the peak in this **Private Wave** on the **Economic Confidence Model** of 51.6 years. The last **Public Wave** that peaked in 1981 was marked with the insane interest rates when Volcker raised the Fed Discount Rate to 14%. That peak was clearly the end of the **Public Wave** as Volcker fought desperately to try to defeat inflation. All he did was push it off since the excessively high interest rates merely sent the national debt into hyperactive drive. With this peak in the **Private Wave** in 2032.95, we should be expecting insane collapse in confidence regarding anything to do with government. That fits nicely with gold going to excessively high levels.

Since gold bottomed with the **64-Year Model** in 1998 and peaked in 2011 with the low of the Model, so far gold has not separated itself as a pure commodity yet. Eventually, that will unfold so we should expect a cycle inversion as it flips to respond in harmony with private assets in general – i.e. shares. This warns us that with gold declining begrudgingly since 2011 as the Dow Jones rises to new highs, we **CANNOT** rule out that 2016 will produce a low rather than a high and extend the entire cycle from there projecting the final high off into 2032.

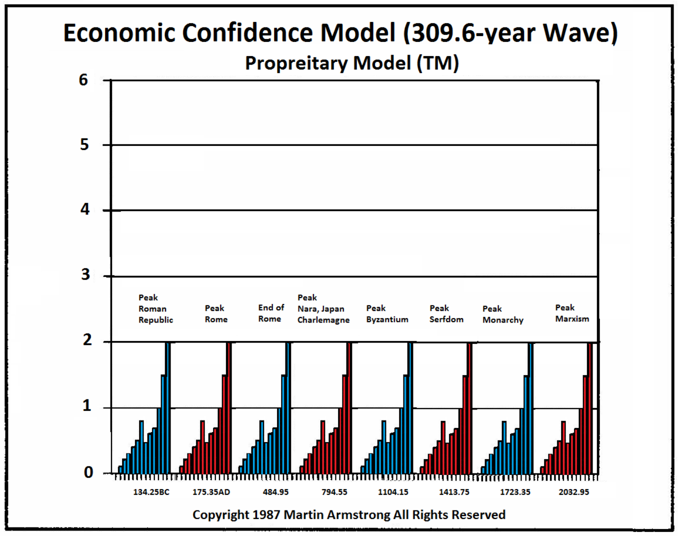
THE TRIPLE BOTTOM

If we look objectively at gold from a technical perspective, the chief support should be found at the top of the primary channel on the Yearly Chart at the $956 level. This channel was constructed from the Breakline off the 1980 high. We have a very interesting pattern for the low in gold. The intraday low was August 1999. The lowest annual closing was 2000, and the lowest quarterly closing was the first quarter 2001. The lowest low for gold was in January 1970 when it fell below the $35 fixed Bretton Woods floor reaching $34.70. Therefore, the lowest low should take place no further than 31.4 years later from 1970 making that 2001. The shortest time for a **Long Depression** is 19 years from the 1980 high giving us 1999 as the target low. The last serious rally of the 1980 Bull Market was 1987. The traditional 13-year counter-trend from there provided 2000. This is very unusual that all three worked according to their historic actions.



When we look at the long-term applying a stochastic to gold on a yearly basis back to 1264, we see that the Stochastic is currently at 88 where it historically has reached 97. This suggests that indeed the all-time high is not in place. The impact of the gold standard becomes obvious. It created a similar oppressed Communistic state where a flat line emerged post-1934. This is much flatter than the period following the **Black Death** when government tried to outlaw paying wages or wages that would rise in value.

In 1362, a petition was filed in the **English House of Commons** blaming the inflation on workers ***"who refuse to bear the burden of poverty patiently"*** to justify freezing wages. Mintage of coins between 1373 and 1411 was exceptionally low. Taxes rose causing hoarding that further reduced the **VELOCITY** of money. Ordinances then appeared prohibiting the exportation of precious metals as hoarding increased. Edward III (1327-1377) issued the ***Statute of Labourers*** in 1351 that set a maximum rate of pay at pre-plague levels and required all able-bodied men to work. The **Black Death** created a very dynamic economic impact by increasing individual wealth, reducing the population creating a shortage of labor, and price inflation.



Yet this was a period of tremendous political upheaval. In Florence, there was the ***Revolt of the Ciompi*** in 1378, which was an insurrection involving the lower classes that seized the government and created a somewhat democratic government that supported their philosophies in Florence. The ***Ciompi*** were the wool carders who were the most radical of all the groups and were largely acting out of the same philosophies that were later adopted by Karl Marx in the 19th Century. The struggle emerged between factions within the major ruling guilds. Demanding a more equitable fiscal policy and the right to establish guilds for those groups not already organized. Then, on July 22, 1378, the lower classes forcibly took over the government, placing one of their members in the important executive office of ***Gonfaloniere of Justice***. The new government, while it controlled by the minor guilds, it did take a novel position insofar as for the first time it represented all the classes of society. Yet the ***Ciompi*** were quickly disillusioned as the economic conditions worsened. The conflicting interests between the guilds emerged. Finally, on August 31 a large group of the ***Ciompi*** had gathered in the Piazza della Signoria where they were confronted by the combined forces of the major and minor guilds. In the aftermath, the Ciompi guild was abolished, and the dominance of the major guilds was restored.

There is little doubt that this ***Revolt of the Ciompi*** of 1378 was the building of tensions that was accumulating. The ***Political-Economic Revolt of 1343*** was over the corruption in government and the rising unemployment thanks to the financial ruin of many of the smaller merchant-banks as well as the Peruzzi who were effectively bankrupt by 1343. Then there was the ***Worker's Uprising*** of 1346-1347 caused also by the rising unemployment thanks to the French Debasement and the famine of 1346 that caused great social unrest. Now there was the ***Revolt of the Ciompi*** in 1378 once against concerning unemployment that was manifesting into demands for what we would call today, labor unions, of in those days, the right to form guilds.

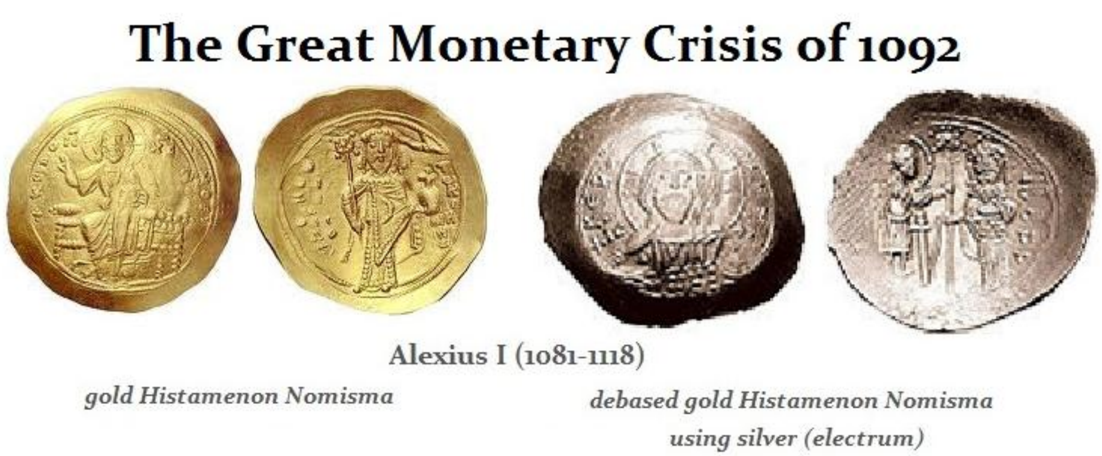
This is just the tip of the iceberg. Here is the 1987 chart we published on the 309.6-year fractal level of the **Economic Confidence Model**. These turning points were all major political changes. The 134BC target was the peak in the Roman Republic that historians have narrowed down to the day of December 10th, 134BC that marked the inauguration of Gracchus as tribune. It was Gracchus that first issued his proposal for land reform in 133 BC. Appian of Alexandria wrote that this political crisis was ***"the preface to ... the Roman civil wars"***. Indeed, the contemporary writers all agreed with this and declared it as a turning point, which also caused the famous slave revolt led by Spartacus took place c. 135-134BC. Velleius commentated that it was Gracchus' unprecedented standing for re-election as tribune in 132 BC caused major riots beginning the Decline and Fall of the Republic and controversy it engendered. He wrote: ***"From then on justice was overthrown by force and the strongest was preeminent."*** (Vell. Pat. 2.3.3-4). It was a decline that began to manifest into the final collapse about 72 years later by 62BC. It was almost 19 years later with the death of Julius Caesar that the end of the Republic was clear and the dawn of Imperial Rome emerged by 27BC.

Historians also agree that the next target of 175AD marked the peak in Imperial Rome with the reign of Marcus Aurelius (161-180AD). That is where Gibbon drew the line for his Decline & Fall of the Roman Emperor for it was with his death everything began to collapse and upon the death of his son, Commodus (180-192AD), the position of Emperor was auctioned off by the palace guards to the highest bidder.

Romulus Augustus (475-476AD)

The next target of 484AD marks the fall of the Western portion of the Roman Empire. The last formally recognized emperor was Romulus Augustus (475-476AD). Romulus was installed as Emperor by his father who was master of soldiers after he deposed Emperor Julius Nepos. Romulus was really a child while his father ruled. Romulus was then deposed by the Germanic chieftain Flavius Odoacer (433–493) and was allowed to live. Odoacer became the first king of Italy and had the backing of the Roman Senate while he pretended to rule Italy under the authority of the previous Roman Emperor Julius Nepos who was murdered in 480AD. It was actually 484AD when Odoacer invaded the East in the struggle to depose Emperor Zeno.

The next target of 794AD takes us to the peak of the Post-Rome Era with the climax of Charlemagne (b 742; 800–814) who became the first Holy Roman Emperor. Charlemagne attempted to restore the old Roman Empire. He even reintroduced coinage with his portrait and called it the denier after the old Roman denarius. The crowning of Charlemagne marked a major political change whereby it became the beginning of the usurpation of the Catholic Church where popes were installed by kings. This culminated in the bitter conflict was that known as the Investiture Controversy, fought during the 11th century between Henry IV and Pope Gregory VII. Eventually, the Holy Roman Empire gradually declined into nothing where the last emperor served until 1806 with little or no real power.



The next turning point is 1104. This is effectively the peak in the Byzantine Empire. Following the Monetary Crisis of 1092, the Decline & Fall was in full motion. It was during the Reign of Alexius I (1081-1118) when the Byzantine Empire was in almost constant warfare against the Seljuq Turks. The Turks prompted the First Crusades during the reign of Alexius I and from this time onward, the collapse of the Byzantine Empire was underway and by the year 1204, it was ruled by Venice. The next turning point was 1413, which marked the end of the Byzantine

Constantine XI (1448-1453)
AR 1/4 Hyperpyron

Empire. Manuel II (1391-1423) at least had two mints Constantinople and Thessalonica where he minted coins. This was the last for thereafter Thessalonica was lost and by 1453, 30 years later, Constantinople collapsed with the last Emperor Constantine XI (1448-1453) who died on the wall defending the city.

Our next target was 1723. This was rather significant for this is when the end for monarchy truly starts. Even in Russia, Czar Peter the Great began his civil system and ended the tax on men with beards. In 1721, Peter the Great ended the Russian-orthodox patriarchy. The Hungarian Parliament condemned Emperor Charles VI's (1685–1740) ***Pragmatic Sanctions of 1713,*** which declared that a daughter could inherit the hereditary possessions of the Habsburgs. His daughter Maria Teresa succeeded him, but this immediately sparked the ***War of the Austrian Succession*** (1740–48) that involved most of the powers of Europe over the question of Maria Theresa's succession to the realms of the House of Habsburg claiming she was ineligible to succeed. These political changes in Russia and that within the Austrian-Hungarian Empire of the Hapsburgs pale in comparison to the financial crisis of the 1720 ***South Sea Bubble*** in England and the Mississippi Bubble in France.

Maria Theresa (b 1717; 1740–1780)

The true impact of the 1720 Bubbles in England and France as well as their cause have long been simply overlooked. It was no coincidence that they both took place in 1720. These bubbles of 1720 came 86 years (8.6 * 10) after the great speculative bubble known as the ***Tulipmania*** of Holland in 1634-1637. The significance of all three of these bubbles was the fact that they were indeed the first speculative

events within the free markets that took place as capital concentrated within Europe. Capital was free to move within Europe and became attracted by the prospect of making money with money as Aristotle referred to such things in ancient Athens.

During this wave, what truly emerged was the ***Age of Sovereign Debt***. The 1500s was a period of complete and total fiscal mismanagement. The problem with government as always, it borrows today with no regard for the future. Currently, we see right now with perpetual borrowing began actually during the 1500s and has never ended. In 1546, Ferdinand I (b: 1503; Holy Roman Emperor 1558-1564) borrowed from the Fuggers giving them a 10% annuity secured by revenues from Calabria. Annuities became the big rage and the French began selling these perpetual annuities in 1522 known as ***"rentes"*** paying 8 1/3%. City governments were also getting into the new annuity rage. Nuremberg issued an annuity at 12% in 1553. The Genoese created bonds sold through its ***Bank of St. George*** that were called "***luoghi***" which did not pay a fixed rate of interest, but a dividend that varied according to the tax revenue. The Genoese were able to sell these "***luoghi***" instruments by creating another interesting incentive under the "***moltipechi***" making them similar to tax-free bonds. Thus, we find the mother of necessity in fact creates the same ideas repeatedly.

Holland created sinking fund annuities paying 8 1/3% realizing that paying annuities never retired debts. The Dutch figured out that they did not want to pay forever and thus took a step away from the annuity game. The Spanish defaults of 1607 helped to then shift the balance of commerce to the Dutch who then founded the ***Wisselbank*** in 1609. The default of the Spain sent capital fleeing to Holland. This is what made it possible for the unfolding of ***Tulipmania,*** which was the rebirth of derivatives post-Dark Age. What was really emerging were option and exchanges. Tulips were even trading in London.

Dutch Wisselbank founded in 1609

This was really the dawn of capital markets. The creation of the first public company took place in 1602, which was the true milestone in the evolution of the capital markets. There had been small corporations before this, and limited liability structures like the ***Commenda*** organization. These were especially popular in Pisa and Venice. The structure was based on equity instead of debt. This became the most popular organizational form of maritime ventures in medieval Italy. This type of partnership was composed of investing and managing partners. The manager's compensation consisted of a share of profits of the ***Commenda*** organization typically 20%. This is the root of today's performance fee in the hedge fund and private equity industry.

The oldest share: share no. 6 of the Dutch East India Company

(not strictly speaking a share certificate but a receipt for part payment of share, issued by the Camere Amsterdam on 27 September 1606, and signed by Arent ten Grotenhuys and Dirck van Os)

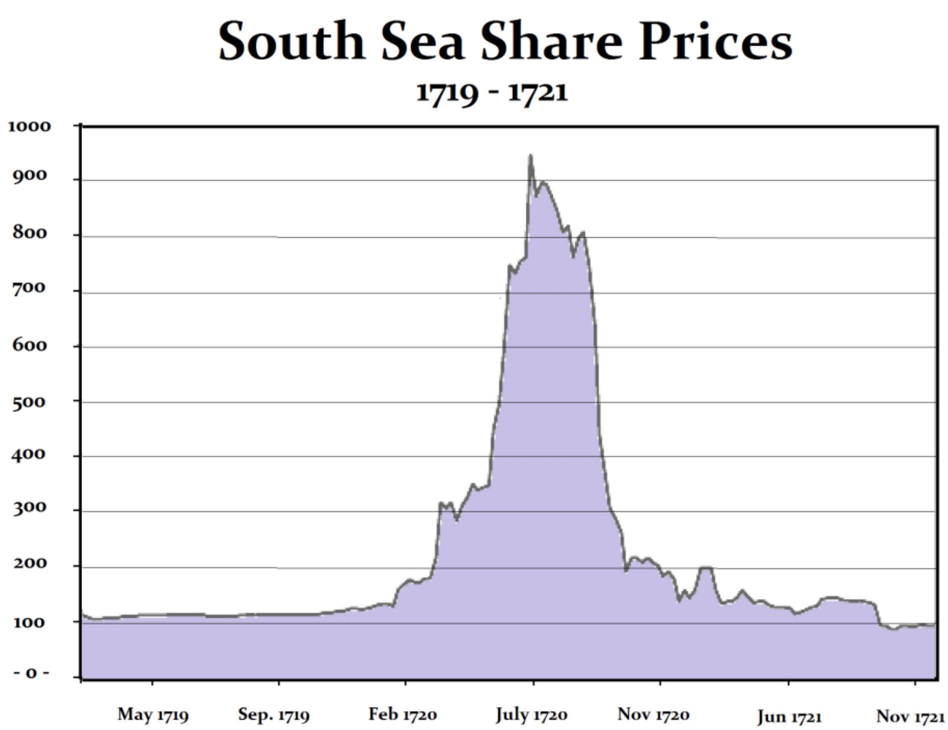
The establishment of these limited liability ventures accomplished one particular venture. When the purpose of company was complete, the profits were distributed with the termination of the entity. It was 1602 when the idea emerged taking a group of these various corporations formed for specific events and to merge them into one ongoing venture, but it still had the concept of automatically terminating at some specific point in time. What emerged was the Dutch East India Company, which became known as **VOC** short for its actual name - ***Vereenigde Nederlandsche Geoctroyeerde Oostindische Compagnie***. VOC was charted for 21 years, but allowed investors to withdraw their money after 10 years when the company would then publish its accounts. There was also no formal issue where shares were sold at this initial offering to whoever wanted to invest without limitation. The number of initial investors was well over 1,000 and the amount of money raised was nearly 6.5 million guilders or about 625,000 British pounds compared to the English East India Company founded in 1599 capitalized at 69,373 pounds with only 219 subscribers. The VOC even issued coins that were used outside of Holland.

1783

Ceylon one Stuiver copper coin of the Dutch East India Company with its Monogram VOC (13.5 grams)

These bubbles between 1637 and 1720 were important events demonstrating international capital flows within Europe as the free markets were developing allowing people to invest in something other than annuity offering from kings. The English Chancellor Exchequer John Aislabie (1670-1742) was a very strong supporter of the South Sea Company proposal in 1719 whereby it would take over the national debt in exchange for government bonds. Aislabie even negotiated the contract and steered the Bill through the House of Commons. The South Sea Company was established on high expectations and it collapsed in August 1720. An investigation by Parliament found that Aislabie had been given £20,000 of company stock in exchange for his promotion of the scheme. He resigned as the Exchequer in January 1721, and in March was found guilty by the Commons of the ***"most notorious, dangerous and infamous corruption"***. He was expelled from the House of Commons, removed from the Privy Council, and imprisoned in the Tower of London, was eventually released, and died at home.

John Aislabie
(1670–1742)



Nevertheless, it was this event of the South Sea Bubble that resulted in Robert Walpole (1676–1745) becoming England's 1st Lord of the Treasury and then he entered office as the first Prime Minister of the United Kingdom under King George I (b 1660; 1714–1727) in 1721. The idea of a sinking fund that eventually paid down the debt first appeared in Great Britain during the 18th century. Walpole began in 1716 a sinking fund that continued into the 1730s. The fund would generally receive whatever surplus occurred in the national Budget each year. However, the problem was that the fund was rarely given any priority in Government strategy, as is the case today. The result of this was that the funds were often raided by the Treasury when they needed money quickly and the whole system merely collapsed.

Robert Walpole (1676–1745)

In France, King Louis XIV (1643-1715) spent a fortune on war. France was on the brink of its third bankruptcy. The government entered into a partial default by consolidating its debt and changing its terms. Its new issue of ***billets d'etat*** was still required for more funding. The shortage of gold and silver coinage was plunging the economy into a depression. John Law's (1671–1729) first proposal for a national bank issuing ***bank money*** was rejected. The second proposal to create a private bank was accepted and thus **Banque Generale** was established in May 1716. It began to issue ***bank money*** payable in gold or silver known as "***specie***" and the charter was good for 20 years.

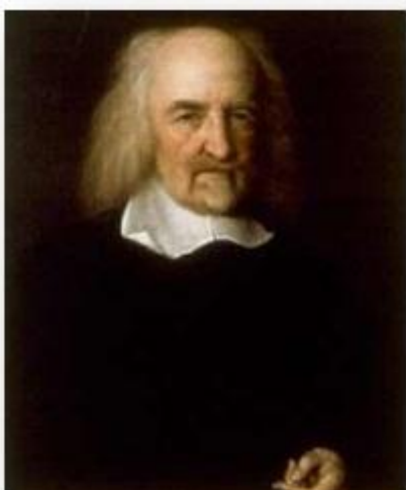
John Law (1671-1729)

At the time, there was still a concept that corporations were one-offs insofar as they were created for a specific purpose. Once completed, the corporation was then terminated. The idea of an ongoing perpetual organization had still not truly taken hold. Hence, the bank was to have 1,200 shares at 5,000 ***livres*** each bringing its capitalization to 6 million ***livres***. However, 75% was to be paid by accepting the depreciated ***billets d'etat*** meaning the actual hard money paid in was only about 25%. Next, the Regent Philippe II, Duke of Orleans, approved that the new banknotes issued by **Banque Generale** were to be acceptable to pay taxes (legal tender). This would add a real tangible value to the banknotes. It also encouraged deposits. So far, John Law was attempting to drag France out of its depression by the heel of its boot.

Law had taken the Dutch model and sought to expand the money supply by the more liberal issue of ***paper money*** compared to the "***bank money***" that people thought was conservative at the **Wisselbank**. John Law saw effectively where paper money would lead and perhaps sought to jump a few hundred years forward. He is said to have told the Duke of Orleans:

> "***The bank is not the only, nor the grandest of my ideas. I will produce a work which will surprise Europe by the changes which it will effect in favour of France - changes more powerful than were produced by the discovery of the Indies.”***

An Historical Study of Law's System, by Andrew McFarland Davis,
Quarterly Journal of Economics, April 1887, p305



Thomas Hobbes (1588-1679)

John Law's flaw emerged from the view of monarchy and its claim of being and absolute power. Law saw this ***Divine Right of Kings*** as superior to the idea of a republic, insofar as one man could make a decision and it would be followed. A republic was mired in debate and was less decisive. Not so different from Thomas Hobbes (1588-1679) and his views expressed in his Leviathan published in 1651. Law thus was very much pro-government and saw a role for the monarchy much as Keynes saw the role of government in managing aggregate demand. Law's vision was that the nation would invest in a trading monopoly much as the ***Dutch East India Company*** was a monopoly and state sponsored. Law merged the concept of a trading company and a bank, with the latter creating money that displacing coin. He saw France as the nation evolving as traders in commerce.

Leviathan Published 1651

In 1717, the new venture would be the "***Company of the West***" (*Compagnie d'Occident*), which was granted a monopoly controlling the entire region for 25 years. The capitalization was now 100 million ***livres***. Shares were now sold at 500 ***livres*** each. Shares were open to everyone just as the ***Dutch East India*** offering. The payment could be made with the government ***billets d'etat***, which the government would retire replacing them with 4% new perpetual bonds known as ***rentes***.

Louis XV (b: 1710; 1715–1774)
1717-A French Ecu 30.59 g, .917 fine silver, .902 troy oz

The banknotes effectively became government notes and the bank essentially became a central bank. The notes could now be exchanged for the ***écu,*** a silver coin of 30.59 grams at .917 fine or .902 troy ounces establishing a silver standard so to speak while the silver/gold ratio was 15:1. The first year of issue saw 61 million ***livres*** in notes against only 31 million ***livres*** in coin. The ***écu*** coin was replaced by the ***écu de France-Navarre,*** which is only 24.47 grams valued at 80 sols. The weight reduction sharply increased the valuation of metal. Nonetheless, it maintained the silver/gold ratio at 15:1. The gold had been struck at 20 coins to the marc whereas now they were struck at 25 to the marc. These banknotes were also convertible into ***livres tournois,*** which would fluctuate. Nonetheless, this was still a unit of account in gold. The silver backed notes were withdrawn by July 1719 and it was held that the notes should not be subjected to any depreciation due to the decline in silver prices. It was July 1719, when the minting of coins was taken over for a 9-year contract. The next month, control of collecting taxes (*tax farming*) was now adsorbed. In May, the ***Company Of the West*** adsorbed other trading companies such as ***East India*** and now the company name was changed to ***Compagnie des Indes*** (*Company of the Indies*), which has come to be known as LaSalle's ***Mississippi Company***. Now by September 1719, the company agreed to lend 1.2 billion ***livres*** to the Crown paying off all of its national debts for Louis XIV had left France near broke by his death in 1715.

Louis XV (b 1710; 1715-1774)
1718 écu de France-Navarre, 24.47 g, .917 fine silver, .7215 troy oz

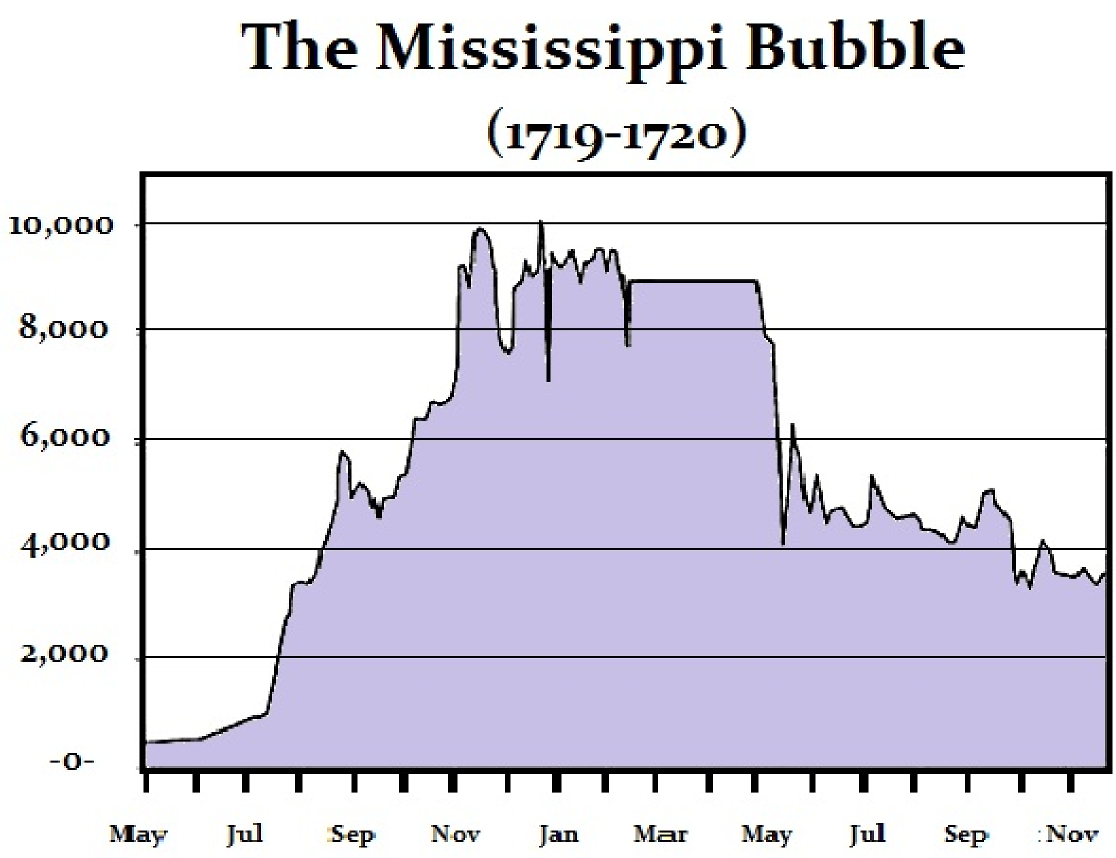
1718 Original Note signed personally by John Law

On June 17, 1719, John Law now issued 50,000 new shares at a price of 550 ***livers*** compared to the first offering at 500. Law underwrote the whole issue himself, but allowed existing shareholders exclusive right to buy on a right of first refusal basis. The next month, a third offering was made of yet another 50,000 shares priced at 1,000 ***livres*** to pay for the 50 million ***livres*** needed to take over the royal mint. Therefore, this was not a dilution, for it was paying for an expansion of the royal mint contract.

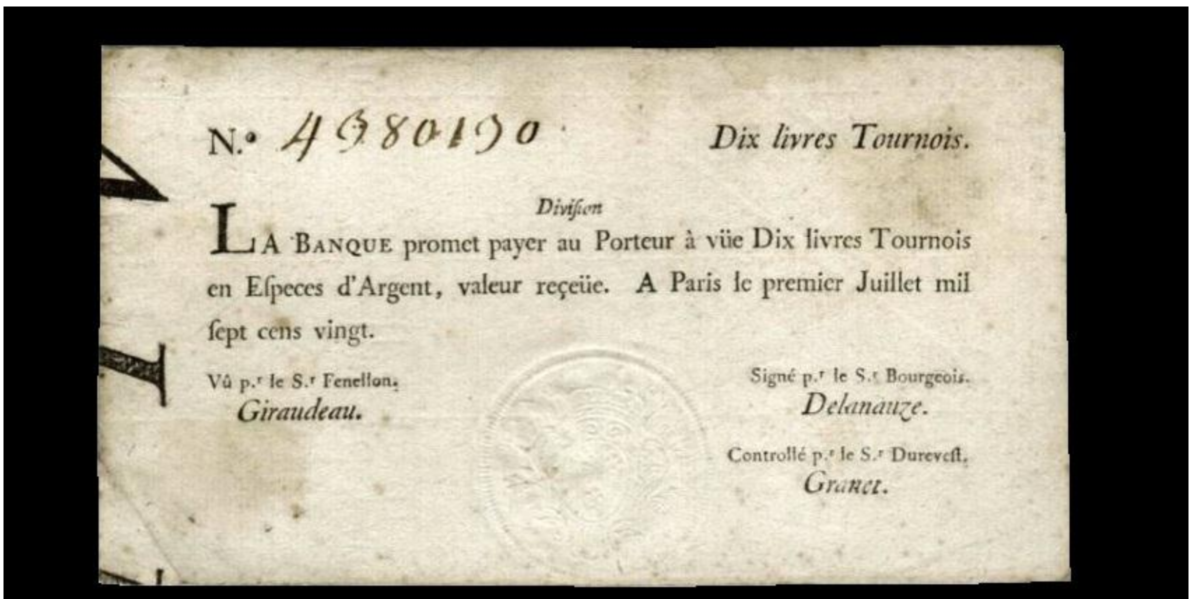
Indeed, stocks were a rare and new development within the monetary landscape. Law allowed **Banque Royale** lending on its own shares of the company following what the Dutch did with the ***East India Company*** shares at **Wisselbank.** Allowing the shares to be collateral status to buy more shares leveraged the entire scheme. By August 1, 1719, the price of shares jumped to 2,750 ***livres***. By August 30, the price was now soared to 4,100 ***livres***. By September 4, the shares rallied even further reaching 5,000 ***livres***. In the fall of 1719, about 300,000 shares had been issued. This should have diluted the price, but instead, the price soared reaching a high of 10,025 ***livres*** on December 2, 1719. Law had created also a Futures market. The March 1720 delivery price reached 12,500 ***livres***, a near 25% premium over cash prices reflecting an expectation that share prices would continue to rise even further.

John Law was named ***Controller General of Finances*** in January 1720 after the new high on the shares reached 10,025 ***livres*** on December 2, 1719. On December 14, 1719, the shares fell back down to 7,930 ***livres*** making nearly a 20% correction. About 17.2 trading days later, the price made its final rally reaching 10,100 on January 8, 1720. Law's belief in the **ABSOLUTE POWER** of government led to his demise. He intervened by establishing a floor price of 9,000 ***livres*** using the **Banque Royale** to buy any shares at that price. This intervention of February 22, 1720 coincided with the announcement the company would take over **Banque Royale**. He issued options priced at 1,000 ***livres*** called "***primes***" with a strike price of 10,000 for 6 months.

By creating a guaranteed floor at 9,000 ***livres***, Law failed to grasp what truly makes a bull market and subsequently the reason a panic sell-off emerges. The bull market ends when you run out of buyers. Law had attracted not merely French capital, but capital all over Europe causing an international concentration of capital. France was the place to be, and simply everyone was there as the scheme ran out of buyers. This is that magic moment when panic strikes. Lacking fresh investors, if there is something that now spooks the crowd or looks more tempting elsewhere, the herd turns into a stampede of sellers. The market simply crashes and burns because there are **NO** buyers. By providing a floor, the scheme failed to support the price, but provided an exist-strategy for foreign capital that began to shift to London for what would become the ***South Sea Bubble***.



When it was announced on February 22nd, 1720 that the company would take over **Banque Royale**, it also removed the floor at 9,000 and the shares declined to 7,825 ***livres***. By March 5th, the Regent argued Law had to reestablish the floor at 9,000 and it was reinstated. Investors began to cash out and by May, about two-thirds had been purchased by **Banque Royale** who issued paper money to pay for the purchases. Here money supply increased sharply with banknotes. By May 21st, Law pleaded with the Regent to reduce the floor price from 9,000 to 5,000 and to recall banknotes, which had been declared legal tender. It took just 6 days and those who believed government would honor the 9,000-floor price and had not sold, were demanding action. The share price had fallen by the end of May to 4,200. The mob turned violent and the Regent had to rescind the decree.



France - BANK ROYALE - 10 Tournois Pounds. Issue Of July 1, 1720

On February 27, 1720, the ultimate insanity took place. It then became illegal to possess more than 500 ***livres*** of coinage. The scheme now graduated into attempting to support the paper currency preventing hoarding precious metals as President Roosevelt's confiscation of gold in the United States during 1934. France then also banned the export of gold and silver from France. They were now attempting to stop the selling of assets by foreign investors without truly realizing the full impact upon capital flows. This now fueled the selling of French assets and many began to shift capital from France to England and the ***South Sea Bubble***.

France - Monetary Reform 1723-1724

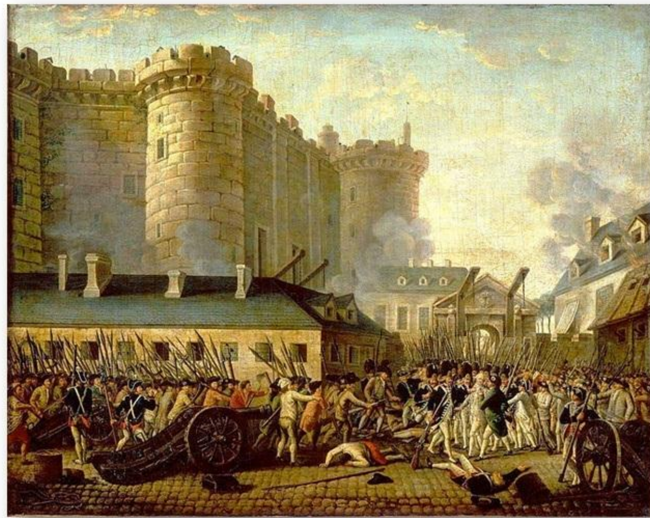
louis d'or Mirliton
6.52 g, .917 fine gold, .19 troy oz
(22-23 mm)

Ecu aux huit
23.49 gr, .917 fine silver, .6926 troy oz
(38 mm)

The precious metal (bullion) prices going into 1720 soared as they rose to 4 times that of 1709 levels. In October 1720, bullion prices were lowered as the Bubble burst. The total circulation of the banknotes was about 2.75 billion ***livres***. By the end of the year 1720, the banknotes were no longer circulating. The government sought to fix the value of precious metals by September 1720. These official values of 1720 were maintained until 1723 when the Louis XV, ***Louis d'or Mirliton*** was issued lowering the silver/gold ratio to 14.45:1. The next year a new silver coin was issued the ***Ecu aux huit*** again slightly reduced containing only .6926 troy ounce of silver.

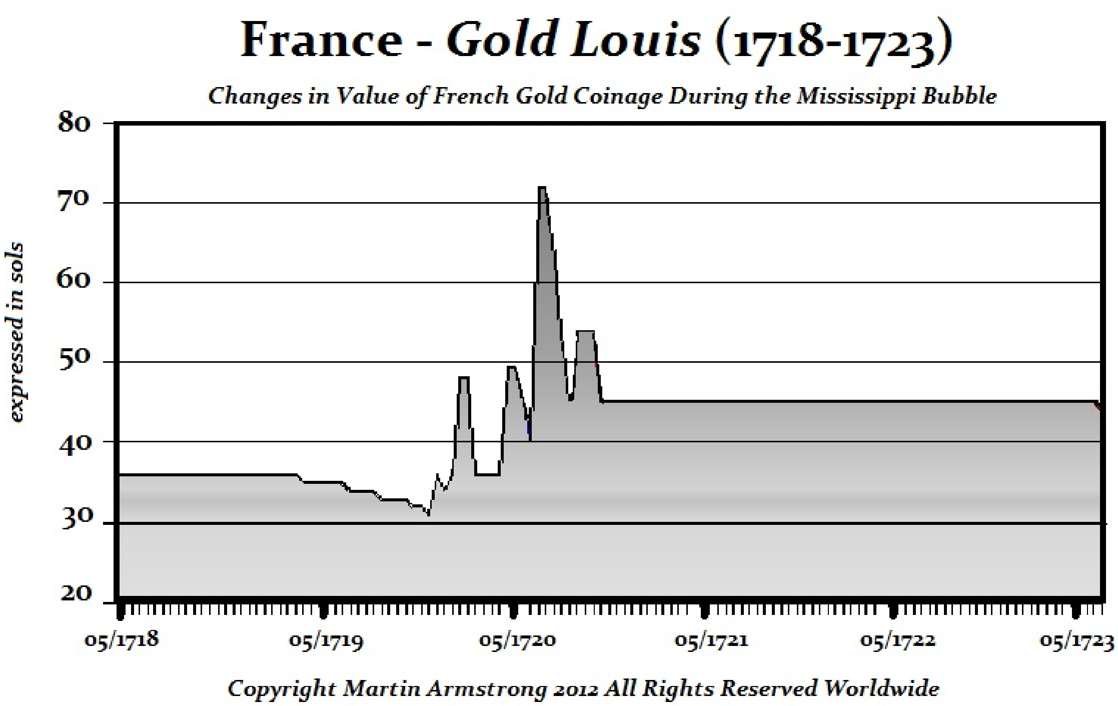
Yes, it is true that inflation in France appeared with a doubling of prices by 1720 from 1718 levels. It was not the money supply per se, but the **CONFIDENCE** that profits would roll in every day. This always causes reckless spending like someone who wins big in the casino. This is further illustrated by the fact that if this were purely the quantity of paper money, then we should have seen inflation on this level in Amsterdam. While Wisselbank was doing the same thing and leveraging the deposits, the fact that nobody knew what they were doing meant that **CONFIDENCE** remained high dampening inflation. This illustrates the maxim – ***what you do not know will not hurt you.*** Obviously, this also calls into question the direct cause and effect of increasing money supply relative to price inflation.

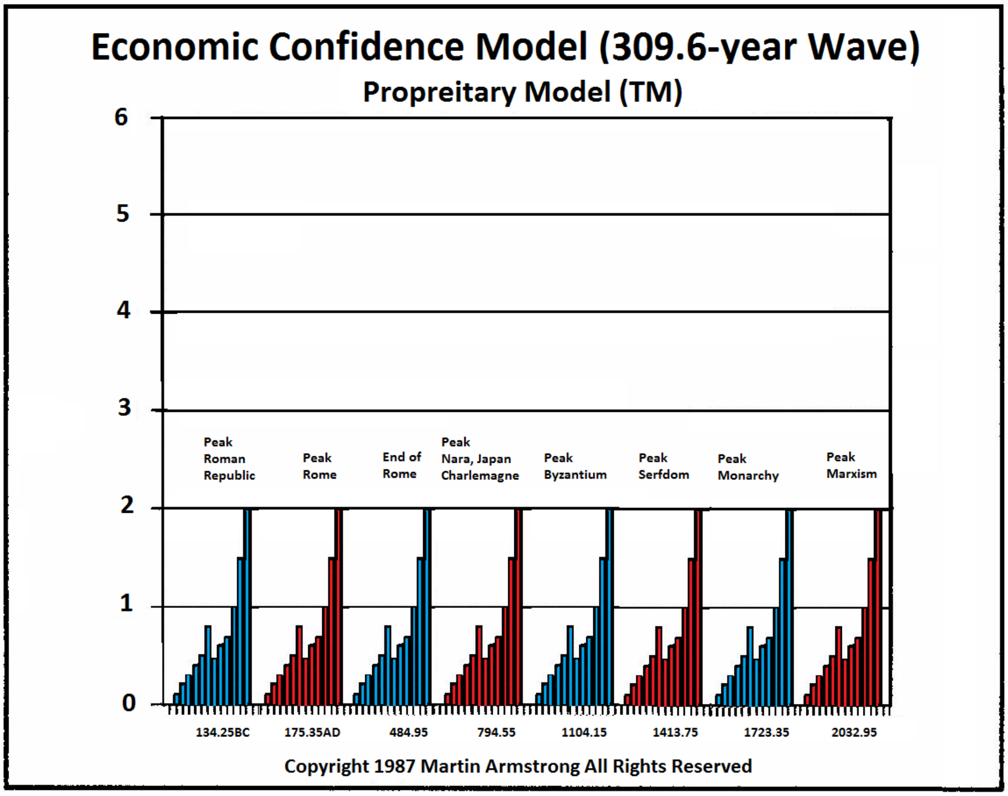
The peak of this wave in 1723.35 not only marked the beginning to the monetary reforms in France that culminated in a major shift economically in France toward higher taxes, but ultimately in the political upheaval that brought the fall of Monarchy in both England and France. The American Revolution and its ***"No Taxation Without Representation"*** reflected the era. England needed money desperately. It began to extract precious metals in taxes and in payment of trade, but anything England paid to the American Colonies was paid in copper. In France, Mississippi Bubble resulted in a massive state bailout as the government guaranteed all debts. To pay that, they not merely began reducing the precious metal content of the coinage, but it raised taxes.



French Revolution - Storming of the Bastille - July 14, 1789

The collapse of this wave from 1723.35 brought about the downfall of absolute monarchy that had ruled France for centuries. The collapse was swift and took place within just three years. The peak of 1723.35 marked above all else, then culmination of a **PRIVATE WAVE** where people had emerged once again with individual freedom after the previous **PUBLIC WAVE** that peaked in 1413.75 as the **Black Death** created a shortage of labor that reignited the age of Capitalism. It was that wave that marked by the rebirth of wages and freedom from serfdom. We can see that the fluctuations in the purchasing power of the gold coinage between 1718 and 1723 demonstrated the wild gyrations of the period.





THE CURRENT WAVE 2032.95

The **PRIVATE WAVE** that peaked in 1723.35 set in motion the revolutions that would change the world. The idea of absolute government ruled by the hand of monarchy ended in violence. The culmination of that wave presented a change within the political structure that was truly profound for this represented the change of a political system that emerged from the Middle Ages. The man who was perhaps the most influential creating this new age of Enlightenment was none other than Charles-Louis de Secondat Montesquieu, baron de La Brede et de (1689-1755). Montesquieu, as he best known, was truly perhaps the most influential of the political French philosophers who did more to alter the course of the world than anyone of this time ever did. Montesquieu was born in 1689, the dawn of the Glorious Revolution in England. That had given birth to the idea of a limited power of monarchy, which came at the end of 224 years of true economic struggle that was marked by the birth of the Wat Tyler Tax rebellion in England that was followed by a persistent increase in the trend of

Montesquieu (1689-1755)

peasant uprisings between 1381 and 1685. This period is often glossed-over as religious rebellions, Protestant v Catholic, but at the core was truly the economic oppression of monarchy.

Montesquieu witnessed the era of the Mississippi Bubble of 1720 and even met the Duc d'Orleans. He began to resent the intellectual inferiors who somehow always manage to gain control of the court of government. In January 1728, he was elected to the Academie Francaise. Montesquieu was being shaped by his experience and observations. In April 1728, he turned his back on Paris and politics deciding to complete his education at the age of 39. Interestingly, the late-bloomer tends to drawn from his experiences and observations rather than rely upon indoctrination.

Prince Eugene of Savoy
(1663-1736)

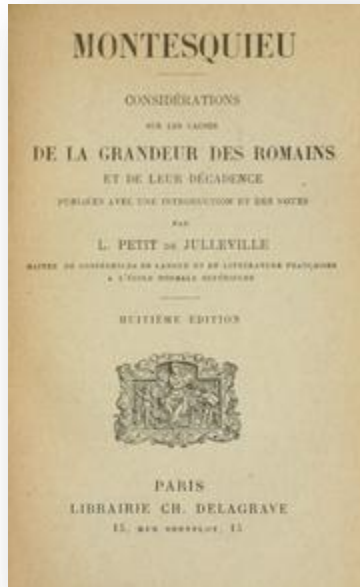
In Vienna, Montesquieu met the political leader and soldier, the Prince Eugene of Savoy (1663-1736), whose political discussions helped spark ideas within Montesquieu expanding his understanding of government. It was this encounter between Montesquieu and the Prince of Savoy. For Eugene was considered even by Napoleon as one of the seven greatest strategists in military history. He fought against the Turks (1683-1688, 1697, 1715-1718) and he fought against the French in the War of the Grand Alliance (1689-1691). He was the teacher of even Frederick the Great of Prussia (b 1712; 1740–1786) who he shaped into a brilliant military strategist. The Prince of Savoy also fought in the War of the Spanish Succession (1701-1714), but he was plagued by a rumor that he was really the illegitimate son of King Louis XIV of France that he perpetually denied. Yet, Louis XIV was always ashamed of such offspring and he restrained Eugene's ambitions as if he was perhaps his son so that after 20 years of living in Paris and at Versailles, he left France and offered his talent to Leopold I (1640-1705), Holy Roman Emperor who was fighting the Turks. He distinguished himself in the siege of Vienna in 1683 and his military career was born.

Prince of Savoy acquired a brilliant skill and the wisdom that allowed him to see that military victory was merely an instrument for achieving political ends. He was Europe's most formidable general who was wounded 13 times himself, yet always faced a world of cunning foes with conspirators at his back that he regarded as the "hereditary curse" of Austria serving three emperors, Leopold I, Joseph I, and then Charles VI. Of these men, Eugene considered that the first had been a father, the second a brother, but with the third, he was just the hired help. The brilliant insight of the Prince of Savoy greatly influenced Montesquieu, which laid the foundation for the right to hare arms, as the Second Amendment to the United States constitution for the idea was to eliminate standing armies that feed the cycle of war returning a nation as Rome began - citizen militias.

By no means, was Prince of Savoy limited to just military conquest. He was keenly interested in science, arts, and literature. He is also known to have communicated with the philosopher Gottfried Wilhelm Leibniz (1646-1716), who laid the foundation for both integral and differential calculus. The Prince of Savoy 's wisdom appears to have emerged from his experience in war and politics and this was no doubt passed to Montesquieu, that formed the foundation of the Age of Enlightenment. This gave birth to the concept that standing armies led to war if not for anything else, but to put on a show of power. This became the fight of Thomas Jefferson (1743–1826) to restrain the federal government to prevent the very world in which we live today. This became the epic battle against the Federalists and when they were defeated, the Democrat-Republican Party of Jefferson became their opponent. They defeated their enemy. They occupied their Capitol Hill. They became the very enemy they defeated.

Montesquieu’s eyes were opened by the Prince of Savoy who helped to reshape his understanding of the political state. Montesquieu also visited Italy with his notebook in hand. Here he no doubt was exposed to the political republics free of monarchy that were the remnant of the old Roman Republic. Montesquieu encountered Cardinal Polignac (1661–1742) of France and read his then unpublished Anti-Lucretius, which was an attack upon the philosophy of the brilliant Pierre Bayle (1647-1706) who adopted the position of atheism and a universal skepticism who was nonetheless respected for his mind despite his religious conclusions. This contributed to Montesquieu’s position on freedom of religion since he himself became a skeptic after witnessing the liquefaction of the blood of Naples’ patron saint. From Italy he traveled through Germany and then to Holland. By October 1729, he then traveled to England where he remained until 1731. He was elected at that time as Fellow of the Royal Society. Montesquieu attended the British Parliament and observed the debates becoming engrossed in the political journals of the times. Montesquieu even then became a Freemason. He viewed his time in England as one of his most favorite times of his life. His Grand Tour to observe European civilization first hand certainly broadened his experience and shaped his political ideas being able to see the varied forms of government from monarchy to republicanism.

Montesquieu spent two years writing an important work that was published in 1734 - ***Considerations sur les causes de la grandeur des Romains et de leur decadence*** (Reflections on the Causes of the Grandeur and Declension of the Romans). It was here when we begin to grasp his understanding of political reform being a republic against a monarchy. This comparison to the Romans no doubt perhaps influenced Edward Gibbon (1737-1794) to write his ***Decline and Fall of the Roman Empire*** in 1776 as well as Adam Smith (1723-1790).



MONTESQUIEU

CONSIDÉRATIONS

SUR LES CAUSES

DE LA GRANDEUR DES ROMAINS

ET DE LEUR DÉCADENCE

PUBLIÉES AVEC UNE INTRODUCTION ET DES NOTES

PAR

L. PETIT DE JULLEVILLE

HUITIÈME ÉDITION

PARIS

LIBRAIRIE CH. DELAGRAVE

Nevertheless, by 1740 Montesquieu knew a great masterpiece was brewing in the streets of his mind. He could see it, taste it, and smell it. The primary avenues of his thoughts were established and by 1743, the text was virtually complete. He then spent the next three years editing and revising his writing until in December 1746 it was almost ready for press. He came to terms with a publisher in Geneva, and then spent the next two years making the final edit and added a few chapters. Finally, this masterpiece in the making appeared in November 1748. The title was now: ***De l'esprit des loix, au du rapport que les loix doivent avoir avec la constitution de chaque gouvernement, les moeurs, le climat, la religion, le commerce, etc.*** (The Spirit of Laws 1750). It was printed in two volumes consisting 1,086 pages.

DÉFENSE

DE

L'ESPRIT DES LOIX,

A laquelle on a joint quelques
ECLAIRCISSEMENS.

Le prix est de trente sols broché.

A GENEVE,

Chez BARRILLOT & FILS.

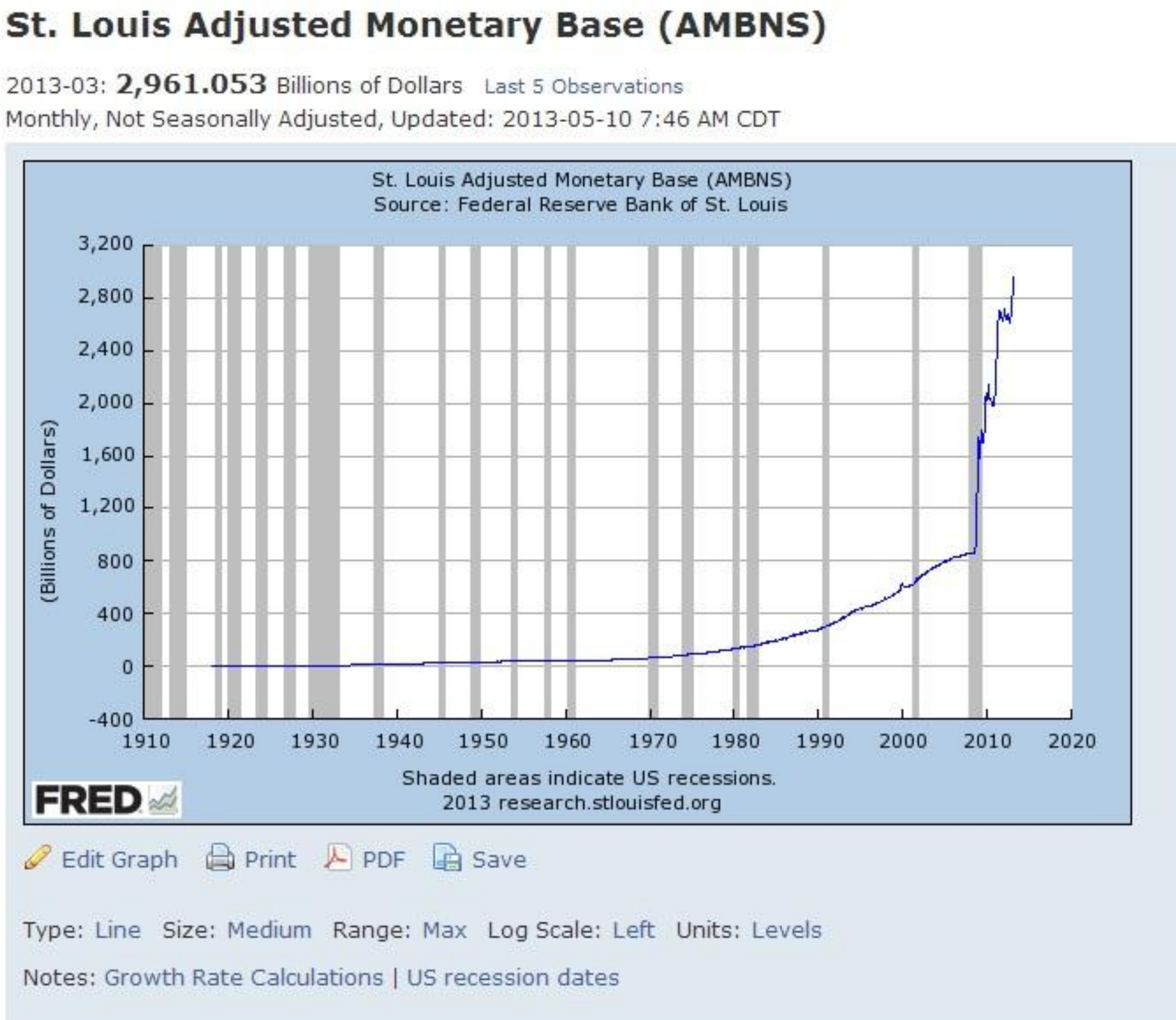
M. DCC. L.

Montesquieu's ***The Spirit of Laws*** was brilliantly profound. It was the accomplishment of a lifetime of observation and demonstrated that he indeed acquainted himself with all the various schools of thought. He was astonishingly thorough. Yet he did not identify himself with any particular school of political philosophy remaining original and unbiased above all else. Of the many subjects covered three main topics that were the most influential in shaping the ***Age of Political Enlightenment***. This was the work above all else that manifested in the end of monarchy and the dawn of republicanism.

The most important of these subjects was his classification of governments that abandoned the traditional divisions of monarchy, aristocracy and democracy. Montesquieu added to this primary division the **republic** that he conceived as being based upon virtue. Monarchy he saw as based upon honor, and despotism that he believed was based upon fear. Montesquieu saw this critical role of government centered upon how policy was conducted. However, it was his brilliant concept that the only way to defeat tyranny was the ***Separation of Powers***. It was here that Montesquieu divided government into legislative, executive, and judicial branches. This design was used to create the United States. Montesquieu wrote from his observations that ***"there is no liberty if the power of judging be not separated from the legislative and executive powers."*** Id./at 181. This very passage is quoted by Alexander Hamilton (1755/1757-1804) in the Federalist papers No: 78, p523 (J. Cooke edition 1961). Montesquieu in his Grand Tour observed governments of all forms and saw how they had manipulated the laws to benefit themselves. The objective of his brilliant idea of the "Separation of Powers" was to prevent "the same monarch or senate" from "enact[ing] tyrannical laws" and from "execut[ing] them in a tyrannical manner."

The entire current 309.6-year wave was set in motion by the observations of Montesquieu to discover how things actually work rather than try to manipulate the outcome. Unfortunately, Montesquieu’s “Separation of Powers” has failed. Politicians appoint judges not the people and thus the same corruption that led to the collapse of the Roman Republic has reemerged once again. When this wave collapses, perhaps we can move to a true democracy with no permanent representatives who make it a lifelong career out of telling other people what to do. In a real democracy, the people vote on issues not “representatives”. We need short one-term positions where the job is to oversee what government is doing. Everything should be privatized as much as possible and put up for public bid and inspection. Anyone in government accepting any gift from such an entity should be sent to prison for life as should those in the private sector. Prosecutions of those in government must be a separate entity and anyone who looks the other way should suffer the same fate. Restrict the terms of office and those who seek to be prosecutors must do so as a career choice and there can be no revolving doors. On top of that, the individual must have the right to sign a criminal complaint against anyone in government. Only with such checks and balances can a republic even function. The key is real **DEMOCRACY** that mandates all citizens vote. These are just starters. There must be much more reform. However, the next wave will present major political reform as the younger generations reject Marxism as simply being unrealistic. They fail to see where raising taxes on the “rich” benefits anyone other than government since it curtails economic job creation.

THE LONG-TERM



To comprehend how much things have changed, there is no better illustration than the dramatic increase in the money supply through the Fed's Elastic Monetary powers. When the Fed was created, it was given a unique tool known as the ability to create money through the elastic money supply powers. What was this exactly? What purpose did it serve?

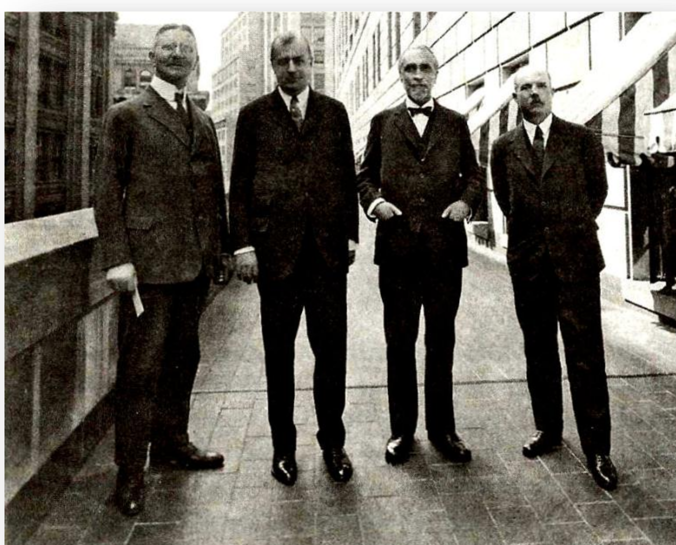
The major step in the evolutionary process of the US dollar began in 1913 with the creation of the Federal Reserve. Money was still tangible, but the Fed was established with the power to create ***"elastic"*** money. In other words, the Fed was empowered with the ability to expand and contract the money supply in order to prevent bank runs. The theory was clear. Banks use demand deposits to lend money long-term. There is a mismatch between how they borrow on demand (short-term) and lend long-term. When an economic crisis hits, people sell assets and rush to cash. This will at times create a bank run if it is perceived that the bank lacks liquid funds to satisfy the demand to cash withdrawals. The bank failure then takes place because its “assets” being loans like mortgages cannot be convert3ed to instant cash. The idea was that the Fed should have the power to create money in an elastic manner increasing the supply during a bank run to satisfy the demand and prevent the wholesale dumping of assets, which will cause prices to collapse further sparking more demand for cash. Thus, the idea of an elastic money supply was sound and made perfect sense.

UNCLE SAM'S NEED OF AN ELASTIC CURRENCY

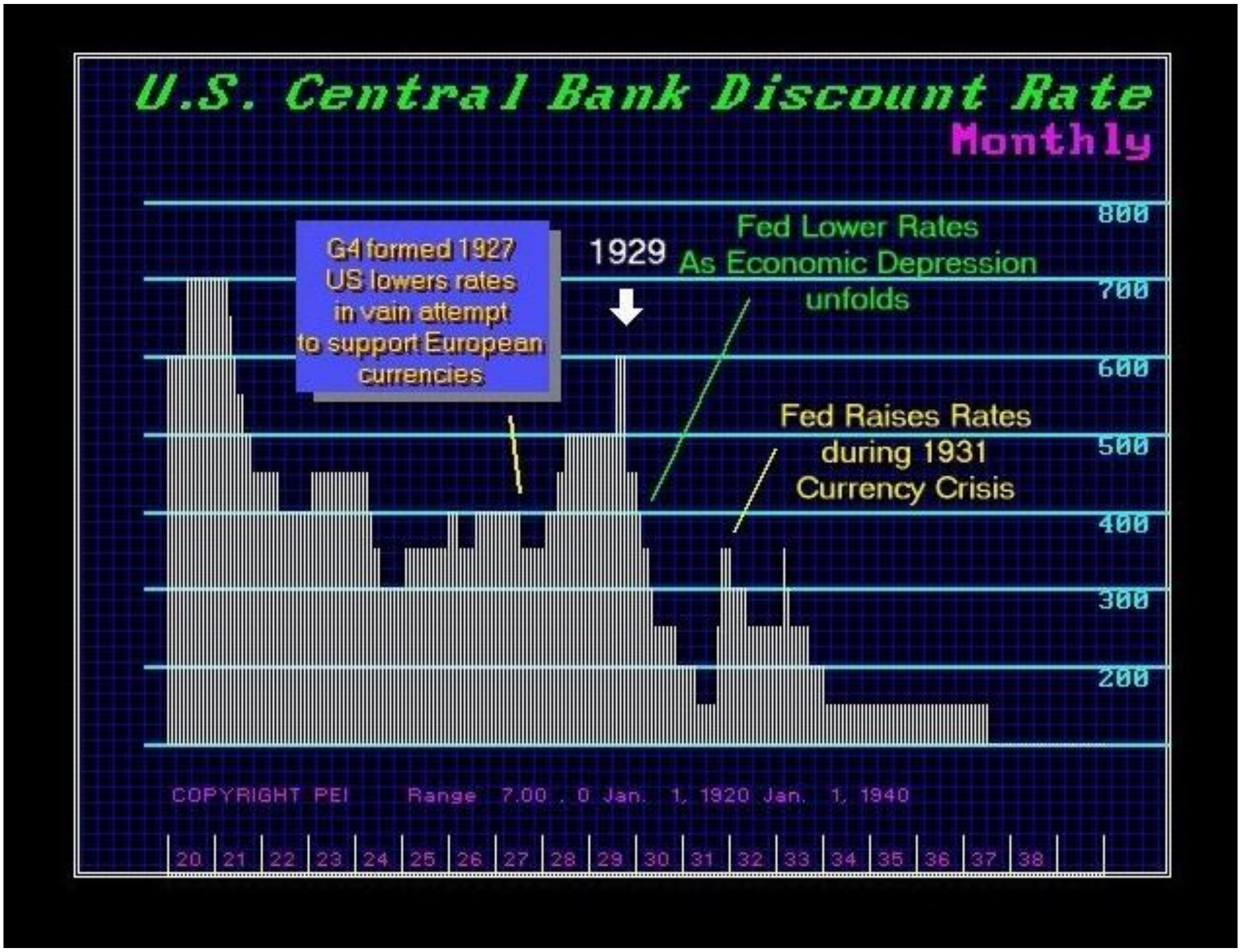
PRESIDENT ROOSEVELT: "You see, those galluses ought to have rubber in them, so that when Uncle Sam stoops to move the sheaf there won't be much strain on the buttons."

From the *Pioneer Press* (St. Paul)

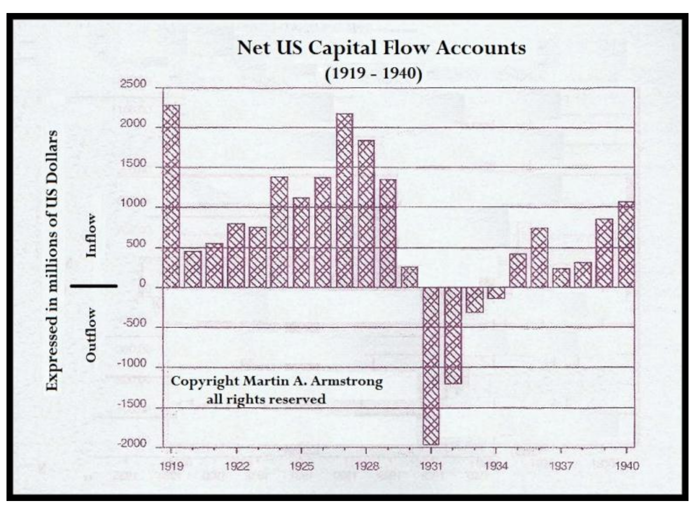
The problem that we face is not the fact that there should be no central bank, but that politicians should keep their fingers out of its pocket. The Fed was originally established with 12 different branches and each had the autonomy to raise and lower interest rates according to the local economy. The Fed stimulated in a crisis by buying corporate paper, which directly created jobs.

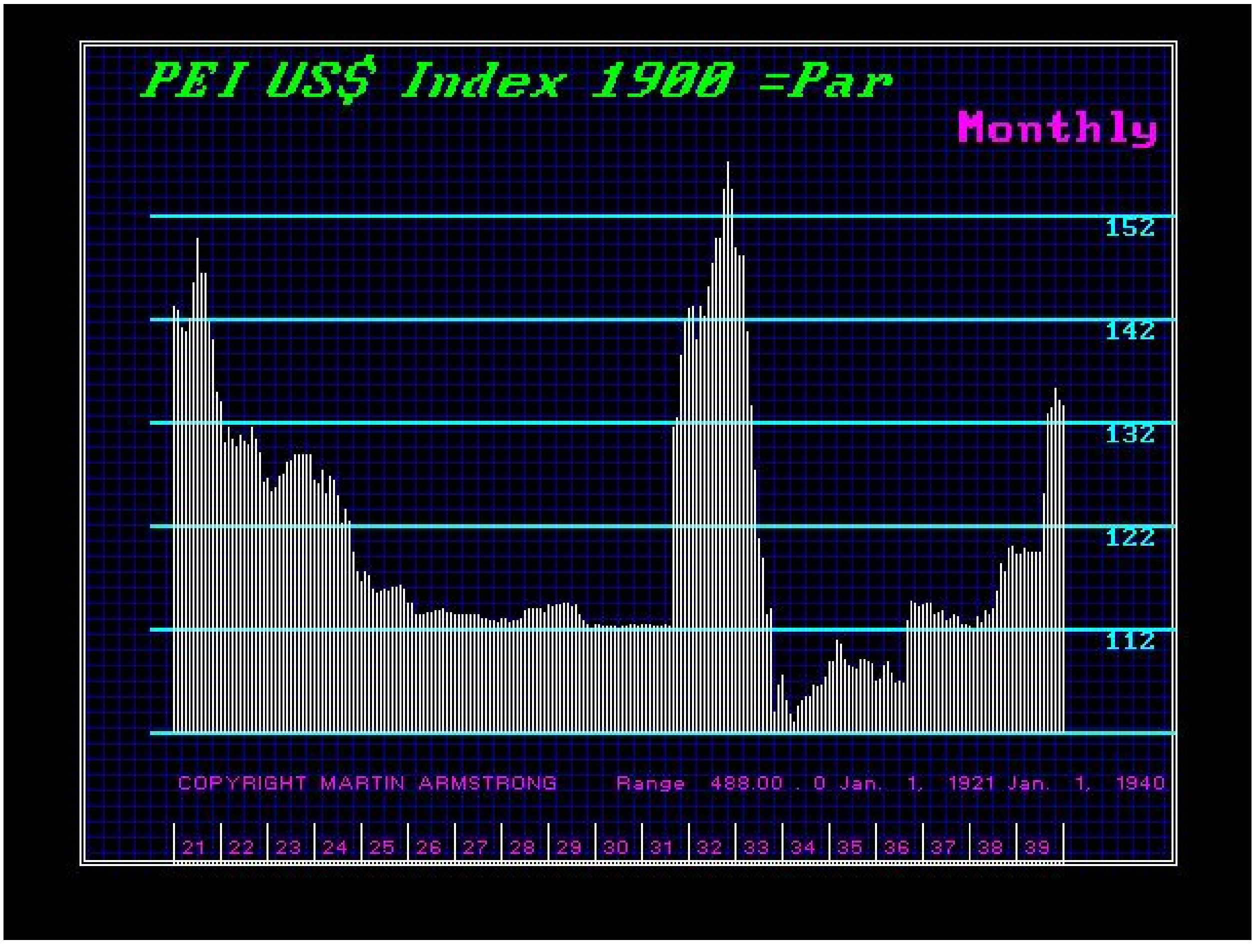


World War I began the corruption process of the Federal Reserve. Government needed to borrow money for the war effort and instructed the Fed that it was to buy their paper and **NOT** corporate. When the war was over, nobody put the Fed back the way it was. The Fed was in a club of central banks. It got involved in trying to deflect the capital inflows into the US from Europe and in 1927 after a secret meeting among central bankers pictured here, the Fed lowered the interest rates hoping to deter foreign capital.



The Fed has been widely criticized for its actions in 1927 with many blaming the entire bubble on that act. Of course, that is a myopic domestic perspective. What they did not understand were the capital flows at that time and what the central bankers were trying to avert. Indeed, capital had fled Europe and concentrated within the USA due to the war. While the lowering of interest rates tended to slow down the capital inflows, the other aspect was the performance of the dollar. The problem was the overvaluation of the pound in its return to the gold standard. Capital had been fleeing to the USA. However, with governments trying to maintain a fixed gold standard meant that they would have to eat all the losses on currency from the net capital movement to the dollar.



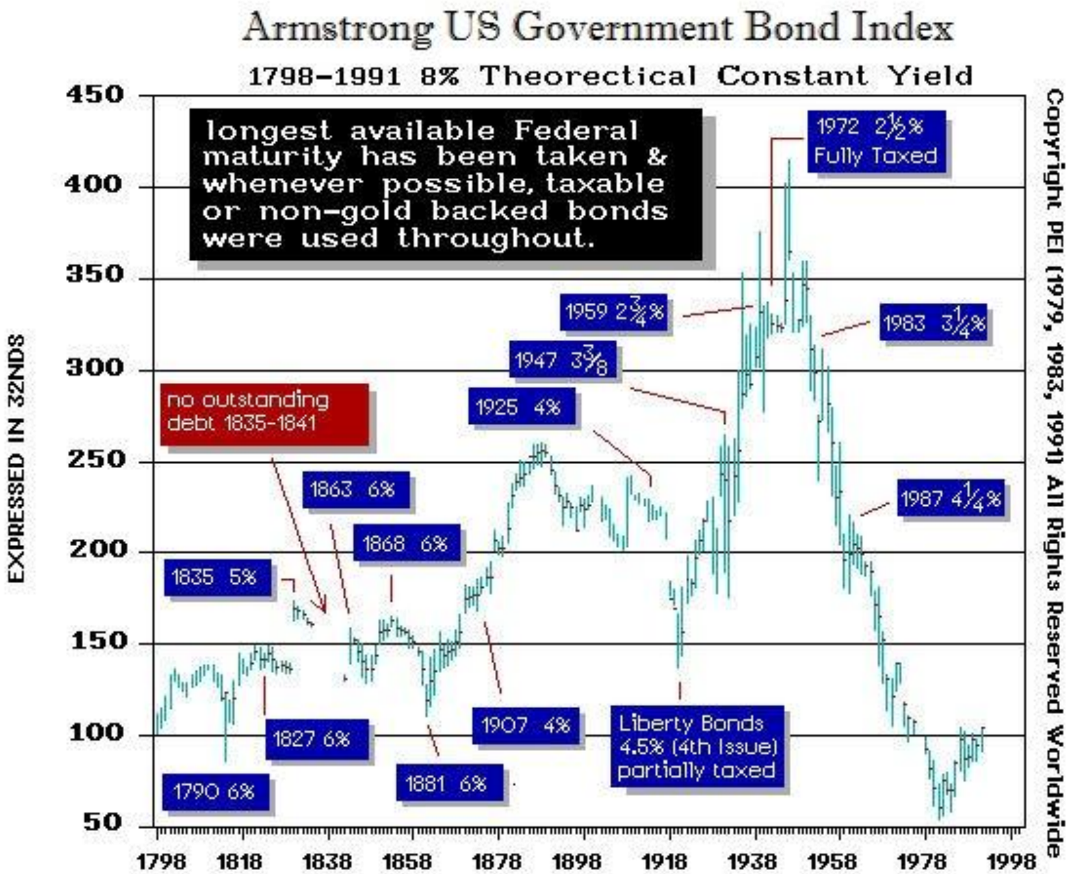


The collapse in European currencies came in 1931 with the sovereign debt defaults. This pushed the dollar up dramatically and that created confusion in Washington who responded with protectionism. It was as if the world was simply being managed by dumb & dumber. The Fed has been criticized for **FAILING** to expand the money supply when it was being flooded with refugee gold from Europe. From the Fed's perspective, it realized this was "hot money" and it assumed it would not remain in the United States. This shortage of money was reflected in the fact that hundreds of cities began to issue local currency. This "Depression Scrip" became necessary due to both the shortage of cash inspired also by bank failures that forced people to hoard cash, and the fact that over 3,000 banks failed. Then there was the rumor of Roosevelt's plan to confiscate gold. All of these events contributed greatly to the contraction in money supply.

Roosevelt signed H.R. 5661 on June 16, 1933
as the Banking Act of 1933

The evolution of the Fed took its next step with the 1933 Banking Act (Pub. L. 73–66, 48 Stat. 162, enacted June 16, 1933). This became known as Glass-Steagall that is best known for its limitation on commercial bank securities activities and affiliations between commercial banks and securities firms. The Act passed on January 25, 1933, during the lame duck session of Congress following the 1932 elections and Roosevelt eventually signed it on June 16, 1933. Time Magazine reported that the 1933 Banking Act actually passed by ***"accident because a Presidential blunder kept Congress in session four days longer than expected."*** For you see, Roosevelt had opposed the Act. What he did not like was the establishment of the Federal Deposit Insurance Corporation (FDIC). He felt that government should not insure depositors. The Roosevelt Administration had wanted Congress to adjourn its "extraordinary session" on June 10, 1933, but the Senate blocked the planned adjournment. This provided more time for the House and Senate Conference Committee to reconcile differences between the two versions of H.R. 5661. In the House, nearly one-third of the Representatives signed a pledge not to adjourn without passing a bill providing federal deposit insurance.

The Act is far more than the restrictions that Goldman-Sachs' Robert Rubin orchestrated the repeal of any restriction between commercial banks and securities firms. The Act also altered the original structure removing the independence of the regional branches that had set their own interest rates based upon local conditions. It was at this time that the Act established the ***Federal Open Market Committee*** (codified at 12 U.S.C. § 263), establishing a single national interest rate omitting voting rights for the Board of Governors until the Banking Act of 1935 revised these protocols. This was later amended in 1942 to create the current structure of twelve voting members that is known today as the FOMC meetings.



During World War II, the Fed was then usurped by the politicians again and was forced to pledge to keep the interest rate on Treasury bills fixed at 0.375 percent. The Fed continued to support government borrowing after the war ended in an effort to try to suppress inflation. This effort was despite the fact that the Consumer Price Index rose 14% in 1947 and 8% in 1948. President Harry S. Truman in 1948 replaced then Chairman of the Federal Reserve Marriner Eccles with Thomas B. McCabe because Eccles opposed this polotical policy. Eccles was appoint to the Fed by Roosevelt and was reappointed Chairman in 1936, 1940, and 1944 and served as Chairman until 1948. In February 1944, Roosevelt appointed Eccles for another 14-year term on the board and Eccles stayed on the board until 1951 although not as Chairman after 1948. He resigned over the argument between the Fed and the Treasury Department about the suppression of interest rates. Eccles had also participated in post-World War II Bretton Woods negotiations that created the World Bank and International Monetary Fund.

In fact, Eccles's term on the board as Chairman would have continued for three more years. But Truman was intent in keeping the Fed under political control. Eccle’s objections to this political usurpation of monetary policy was his undoing. The reluctance of the Fed to continue monetizing the deficit became so great that in 1951, President Truman invited the entire

Federal Open Market Committee to the White House to resolve their differences. William McChesney Martin, then Assistant Secretary of the Treasury, was the principal mediator. Three weeks later, he was named Chairman of the Fed, replacing McCabe. What finally emerged has become known as the ***1951 Accord,*** which was an agreement between the Treasury Department and the Federal Reserve that finally restored the Fed's independence.

While many blast the Federal Reserve and try to cast a dark cloud of the ultimate conspiracy over its very existence, what is ignored has been this constant trend to interfere and manipulate the Fed for political purposes.

The Federal Reserve notes issued over time have evolved. The notes have clearly been transformed from once being redeemable in gold or lawful money that could also be silver coin into purely legal tender and ultimately electronic. Once each Federal Reserve branch issued their own notes, which were indeed redeemable only at that branch for it reflected the tangible assets held exclusively at the location.

Roosevelt's confiscation of gold in 1934 resulted in the elimination of any mention of gold. Finally, when silver was eliminated from the coinage in 1965, the notes now simply stated that they were legal tender with no mention of "lawful money" whatsoever.

Anatolia - Electrum 7th Century BC

Throughout history, there has always been the existence of a single international currency. Even the very first currency created in the Greek city of Sardis located in Lydia, Anatolia, which is modern Turkey, when it was conquered by the Persians, they adopted the invention and continued to produce the same coinage without even changing the designs. The most famous King Midas is popularly remembered in Greek mythology for his ability to turn everything he touched into gold. This legendary story of the Golden touch refers most likely to the Phrygian city of Midaeum located also in this region of Anatolia. Gold was so commonly found in the rivers there that the first coinage emerged of the natural alloy known as electrum a mixture of gold and silver that varied greatly in quality. Coinage effectively first began as standardizing the weight. This was followed by applying a design to insure the object was not being shaved. This eventually led to the application of a design of a lion head that was the badge of the city of Sardis.

Lydia Gold Stater 6th century BC

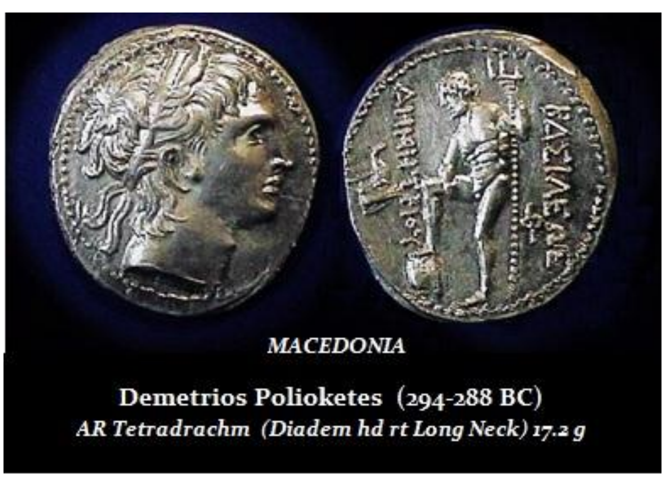
The design eventually became the lion confronting a bull and it was King Croesus (Κροῖσος, Kroisos; b 595 BC; 560 –c. 547 BC) who refined the electrum and began the first bimetallic monetary system. When the Persians conquered Lydia, then continued to mint his coinage right down to the designs without skipping a beat.

The Western World Currency Standards 600BC - 1900 AD

The currency of the dominant economy has always been the primary international currency. It has often been imitated by the peripheral economies surrounding it. Nevertheless, there has always been a dominant currency that id dictated by (1) the strongest military power, and (2) the largest economy. As the Persians fell following their failed attempts to conquer Greece, the financial capital of the world became Athens both for here economy and military power. Her coinage became the silver "owl" a tetradram that has been found everywhere from Asia to the upper regions of Europe. It was a recognized international standard and proof of that are contemporary forgeries not cheating on the metal, just trying to create more of it to expand the money supply.

Athens fell to the Macedonians. Here too, we fine the gold stater of Philip II (382-336BC) being imitated in modern Switzerland. His son, Alexander the Great, created the first real international currency for by conquering much of the known world he introduced the Greece monetary system and standardize the coinage everywhere he went. Therefore, we find all the nations he conquered produced coinage on the Greek standard and this facilitated commerce eliminating even the need for the money changing profession as much as possible.

The further proof of this fact that the legacy of the Greek economic dominance and power in the financial affairs of Europe emerges when we look at the coinage of places he did not conquer. We see that the first silver and gold coinage of Rome also conformed to the Greek standard of the drachm. Nevertheless, the Greek world was rather amazingly consistent. Even by the time of Demetrios Polioketes (294-288BC) we find that the tetradrachm was still virtually unchanged with a weight of 17.2 grams. Of course inflation had taken place and prices naturally rose with the increase in commerce and population. Nevertheless, we do not find that government engaged in debasement or the reduction in weight standard.

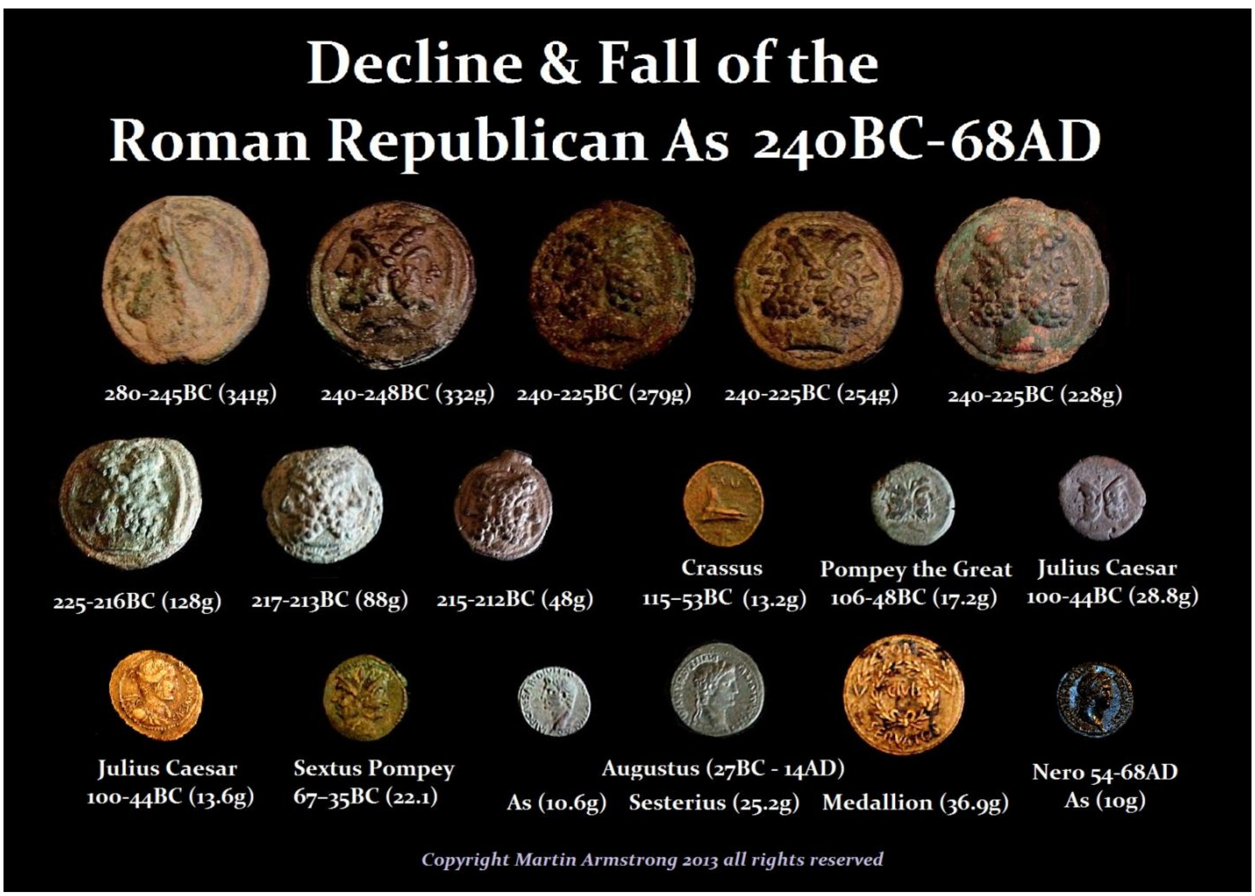


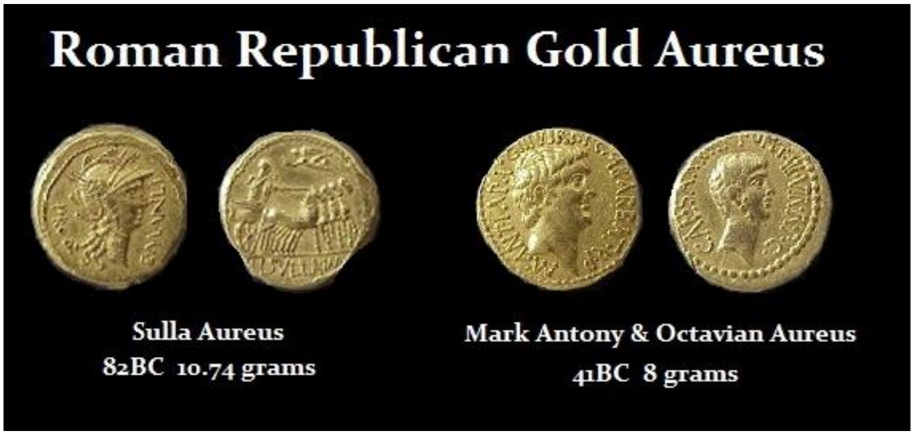
The monetary standard of the tetradram remained very steady even into the dominant period of the Roman Republic. We see a sharp debasement in the Asian Greek section of the world that never adopted the Roman denarius standard. As illustrated here, only with the civil wars following the death of Julius Caesar in 44BC does debasement emerged, as is the case with the tetradrachm of Marc Antony and Cleopatra about 30BC. The weight reduction and low silver content became standard in the Greek world that lasted until the monetary reforms of the 3rd century AD.

Titus Quinctius (196BC) Gold Stater
Roman Conquerer of Macedonia
(Weight: 8.4 grams Diameter: 18 mm)

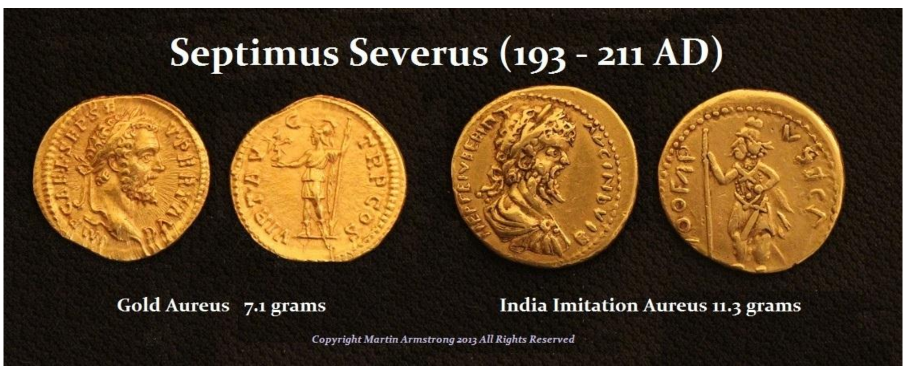
Titus Quinctius Flamininus (c. 229–174BC) was a Roman politician and general instrumental in the Roman conquest of Greece. During the period from 197 to 194 BC, Flamininus directed the political affairs of the Greek states from Elateia much as McArthur directed the affairs of Japan. He deeply respected Greek culture and spoke their language. In 196 BC at the Isthmian Games in Corinth, Flamininus proclaimed the freedom of the Greek states. The Greeks hailed him as their great liberator and honored him by minting coins with his portrait illustrated here. According to the great historian Livy, this was the act of Flamininus granting freedom transformed the Greek world into and integral political part of Rome. The Greeks saw this act as real liberty compared to being subjected to Macedonian hegemony. With his new Greek allies, Flamininus plundered Sparta, before returning to Rome in triumph along with thousands of freed slaves, 1200 of which were freed from Achaea, who had been taken captive and sold in Greece during the Second Punic War.

It was not until after the Punic Wars that we see Rome reduce the Greek standard of a didrachm (2 drachms) being 6.92 grams to establishing the Roman denarius at 4 grams in 211BC, which became the next international world currency. Rome was starting to emerge as the new Financial Capital of the World. Over the course of the Republic, until its true collapse in 27BC with Augustus (27BC-14AD) assuming the throne as the first emperor, there was no debasement in the Roman coinage although there was a weight reduction. This was very obvious in the bronze coinage where the Roman As





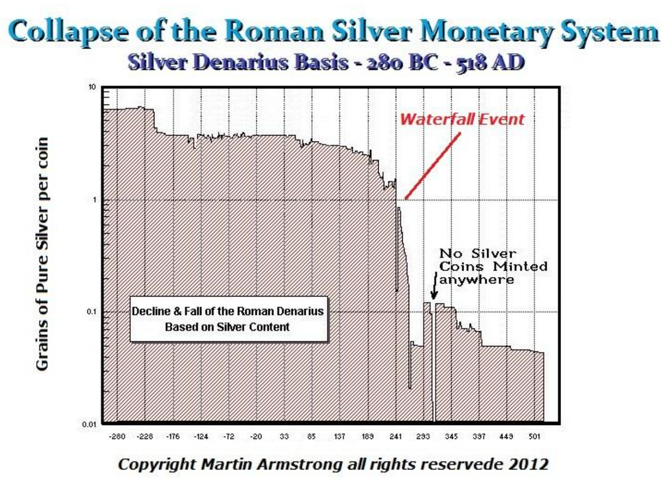
The decline and fall of the Roman Republic is marked to some extent in the weight reduction of the gold coinage as well. The Aureus at the time of Sulla about 82BC was 10.74 grams. By the time we reach Mark Antony during the Civil War period, the Aureus had been reduced to about 8 grams where it remained until the 3rd century. The rise of Rome as the Financial Capital of the World is indicated by the fact that here we have an imitation of a Roman Aureus struck in India. Again, this is not an attempt to counterfeit the coin since it actually weighs more than an original issue. This coin was clearly struck in an effort to expand the money supply in Asia where Roman coins circulated freely. The same pattern is seen in Japan where their coinage imitates that of China. The money supply of the dominant economy is **ALWAYS**, and without exception, freely accepted far beyond its borders just as US dollars were freely circulating in Asia and Russia.

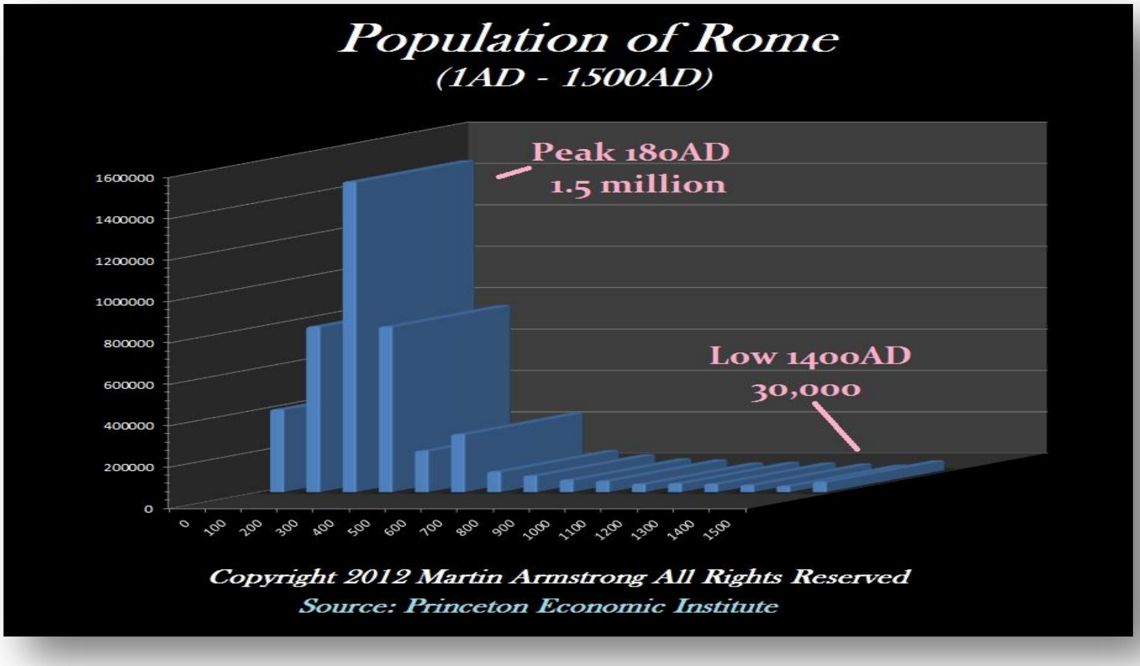


By the time of Gallienus (253-268AD), the gold coinage appears with a Double Aureus distinguished with a Radiated Crown with a weight of only 5.8 grams. The Aureus now is only 3.69 grams and this falls to .77 grams by the end of his reign.

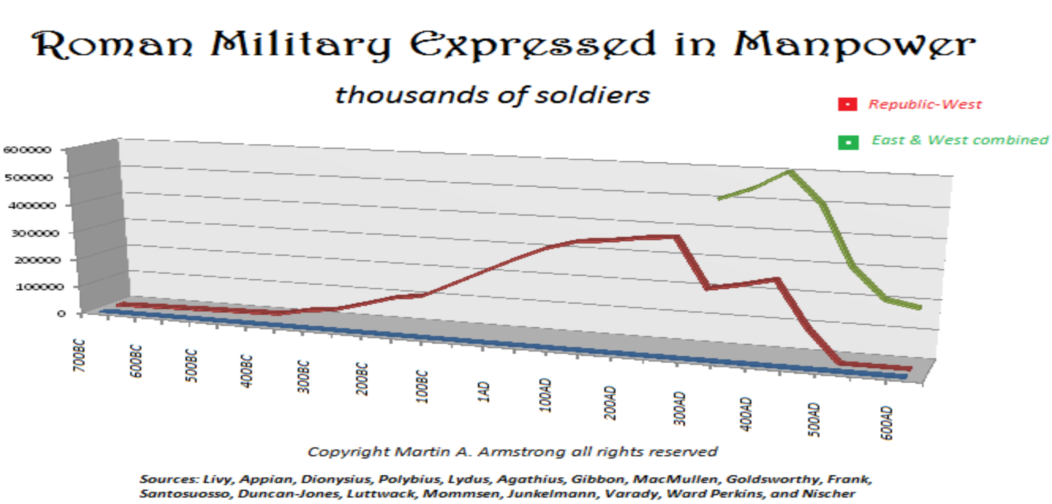
Gallienus (253-268AD)

The collapse of the silver denarius is also staggering and was the direct result of fiscal mismanagement. Like today, they promised pensions to the military and never funded them. They met their obligations with purely debased coinage. The more they could not meet their promises, the greater the debasement and the more aggressive they became with takes. Because of the debasement, counterfeiting the coins became a pastime. Thousands of counterfeit coins appear in Britain and Northern Europe from this time known to collectors as "Barbarous Radiates". The turmoil of this period led to the breakup of the Empire as Britain, France, and Spain split becoming the Gallic Empire and in Asia Queen Zenobia established her empire based in Palmyra that had even taken Egypt. Political unrest accompanies fiscal mismanagement.

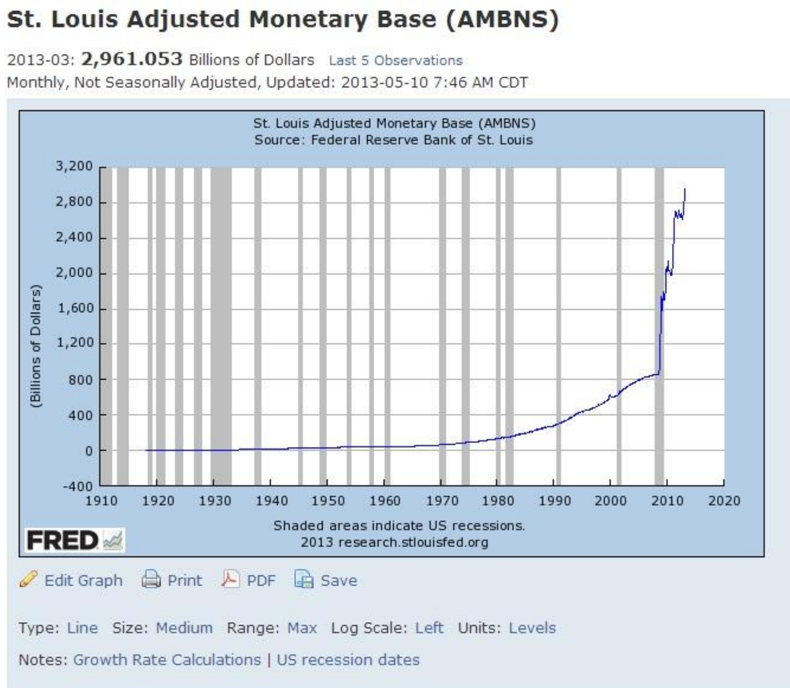




The fiscal mismanagement of Rome during this period also set in motion the great migration from the cities to avoid taxation. This became known as "suburbium" in Latin from which we derive the word suburbs. We are seeing signs of migration today as taxes rise and government are on the hunt looking for anyone they can confiscate their assets from trying to keep the game going. Of course, like Rome, this is a hopeless cause. Nonetheless, you will never convince those in power that they are doom. They will fight, kick, scream, and attack with lethal force showing no mercy just to hold those reins of power for one day longer. They will destroy society in the process just as did the Romans. Can we avoid another Dark Age that appeared in Greece following the Heroic period and Japan where no coinage was even struck for 600 years or the fate of Europe and serfdom? Society is always destroyed by government.



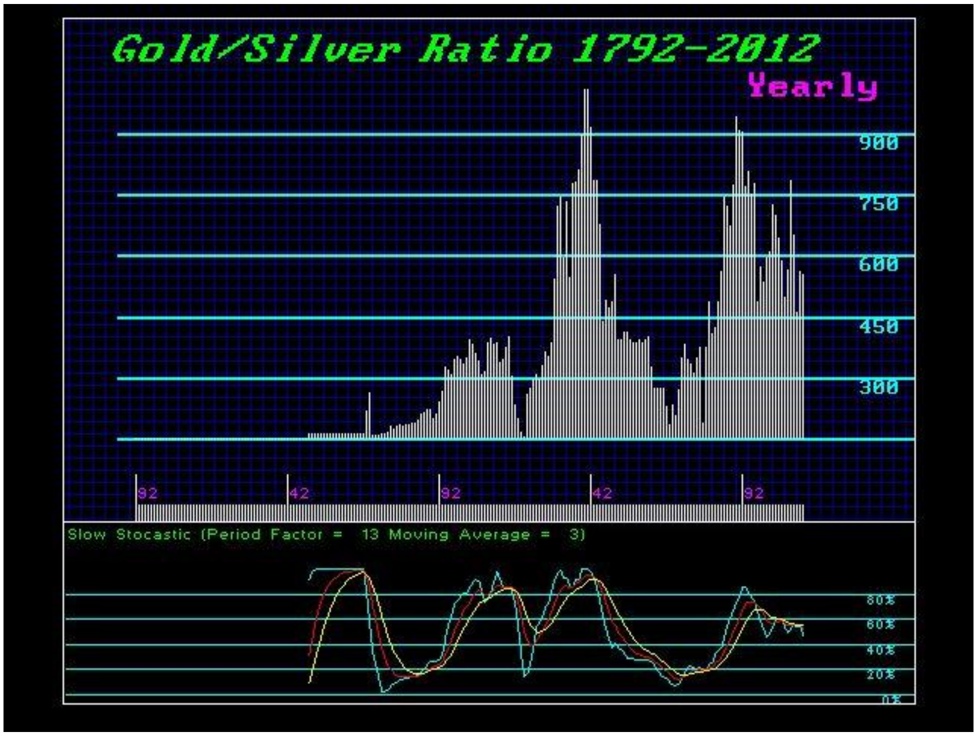
With the dramatic increase in the money supply as illustrated here with the St. Louis Fed Chart, 99% of the people are simply baffled saying – ***It's got to be inflationary!*** But this is old school. Welcome to the new International Currency – the **DOLLAR!** The United States has emerged no different than Rome, Greece or Lydia in their day or Britain up until 1914. The US has in fact become the core economy that has provided the market for the rest of the world. It has the largest economy and its currency has transcended the traditional concept of money limited to its domestic economy. With Japan refusing to ever let go of its rein of power prohibiting the issue of any bond internationally denominated in yen, they successfully prevented the yen from ever becoming a world currency despite the fact that they had climbed to become the second largest economy in the world. The creation of the Euro was a disaster and refusing to consolidate the debts of all member states prevented the Euro from ever rising to become a global currency or even a reserve currency. The reserves of central banks are about $11 trillion. With no national bond issue, Europe could never emerge as a place to park serious money. Only the dollar can serve as a reserve currency **BECAUSE** ironically there is a debt market of about $17 trillion for the entire world to utilize.



The lack of understanding that the dollar has become the global currency of choice prevents most of the understanding necessary to cope with the drastic changes this has created in the economic performance of nations and assets. The Federal Reserve has assumed that it was stimulating the domestic economy by purchasing US government bonds. This is simply no longer possible to target the domestic economy. The plain reason is about 40% of the debt is held outside the USA. That means you cannot guarantee that the seller of those bonds to the Fed will be domestic. If a foreign investor sold the bonds to the Fed, they took the cash home. Hence, there was no domestic stimulation. Consequently, the dramatic rise in the money supply must be looked at **INTERNATIONALLY** and not purely from a domestic perspective. The Fed monetized those bonds creating dollars but the dollars were exported. Sorry – that is very old school where the theories no longer apply to the modern economy.

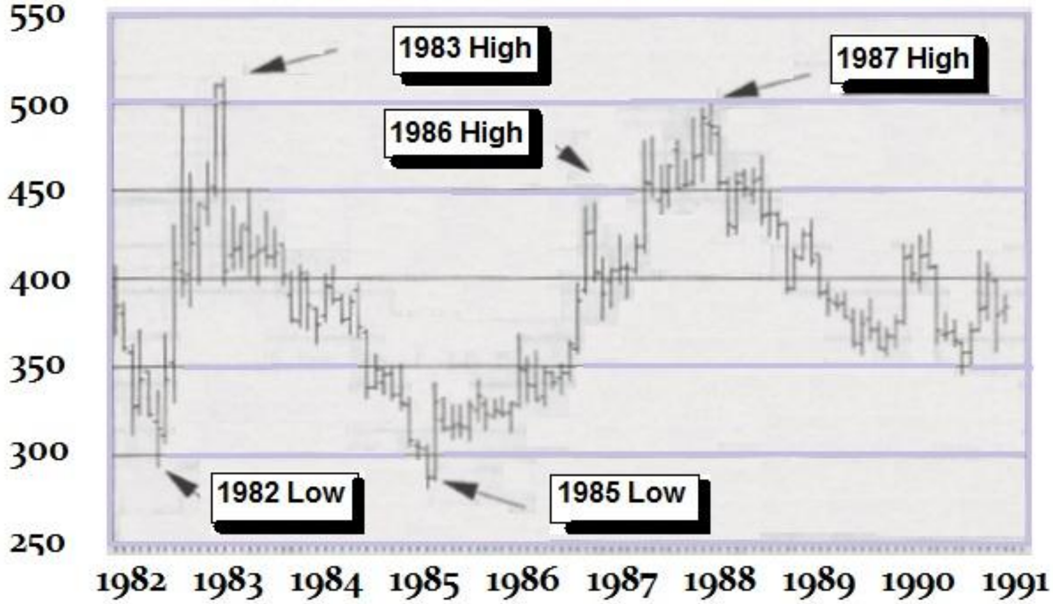
We live in a new global world where the economic theories and understandings of the past are simply antiquated. They have become barbaric relics of a period of misguided economic concepts. This is not merely demonstrated by the primitive idea that money must be tangible, but the irrational idea that one can fix the value of money while everything else floats from asset values to wages. The collapse of the Bretton Woods fixed rate regime and the emergence of the floating exchange rate system have illustrated that money has traditionally floated and was never “fixed” except in communism and brief periods throughout history that also collapsed in failure and that it need not be tangible to function since we have survived since 1971. Far too often fiscal mismanagement is confused with floating intangible theories whereas it matters not what the currency is, but who is in charge of the economy. Despite popular belief, the Fed is not even in charge of creating money, which is augmented by leverage created by bank lending.

The theories of Karl Marx (1818-1883) and John Maynard Keynes (1883-1946) are simply dead. Both presumed, as did John Law that government was **CAPABLE** of altering the business cycle and could manage the economy eliminating recession and depressions. Only Joseph Schumpeter (1883-1950) tried to explain the business cycle while Adam Smith (1723-1790) first defined how society functioned with the invisible hand. Former Chairman of the Federal Reserve Paul Volcker said in his Rediscovery of the Business Cycle in 1979; “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…. [T]he lessons of the **'New Economics'** were seriously challenged."



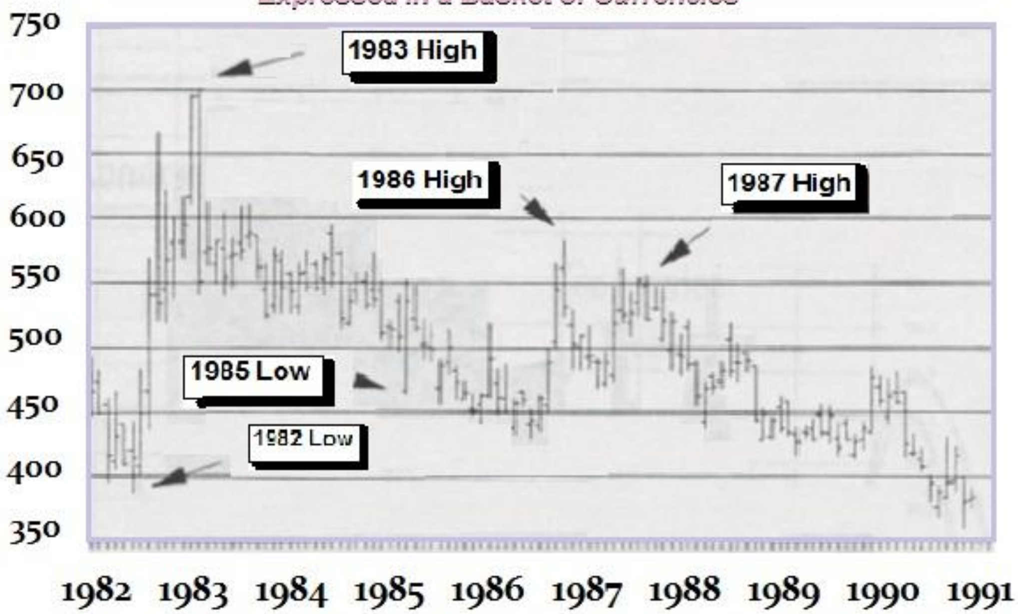
It matters not what anyone attempts to fix. Here is the silver/gold ratio. It is obvious that this fluctuates greatly and gold is in a declining mode currently against silver. Even in medieval times when money consisted of precious metals, there was the phenomenon of fluctuations between gold and silver just as there were capital concentration, which is what took place in the **Tulipmania** of the 17th century, as well as the **Mississippi** and **South Sea Bubbles** of 1720. Capital concentrated within one nation and one sector at a time. Therefore, no nation truly can control its money supply. If a building is sold for $10 million between domestic persons, the money supply is not altered. However, if a foreigner enters bringing cash and buys the building, the local owner now has $10 million that was imported expanding the money supply. This is how bubbles take place. If a market rises simply because of the currency locally, then it is not a real bull market. This is illustrated as to why we were bearish on gold and warned it would decline for 19 years. It appears to be in a bullish trend **ONLY** in dollars following the dollar peak. Gold was declining still in a basket of currencies illustrating this point. It takes a **CONCENTRATION** of capital to create a true bull market and bubbles unfold only during such capital concentrations.

New York Gold Monthly 1982 - 1991



New York Gold Monthly 1982 - 1991

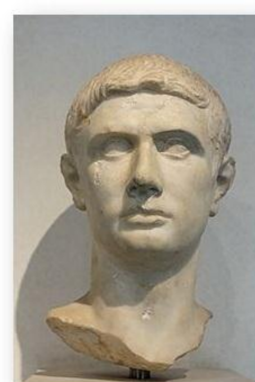
Expressed in a Basket of Currencies



It is vital to understand that there is no single one dimension in analysis. Everything is interconnected and a shares market can rise with declining currency value but that relationship is associated with **DOMESTIC** buying as a hedge against inflation. This type of interrelationship is outside the international capital concentration aspect. Nonetheless, even within a purely domestic event, capital will concentrate as well. For example, there can be the hot investment just as there can be the top hot song, actor, or latest child's toy. These are to some extent part of human nature.

Stanley Milgram's Experiment

Stanley Milgram (1933-1984) demonstrated that there is a collective behavior within human nature he called the obedience to authority. He hook up actors to wires to see if average people would engage in torture after the countless German soldiers that simply said they were following orders during World War II. Milgram discovered that the average person would do what they are ordered even when it conflicts with their own beliefs. He also conducted studies placing one person on the street looking up into the air. People walked by as if they were just nuts. Place 5 people on the street staring into the sky and other will stop to look at what they are looking at. There is certainly a collective behavior and this is true in markets as well.

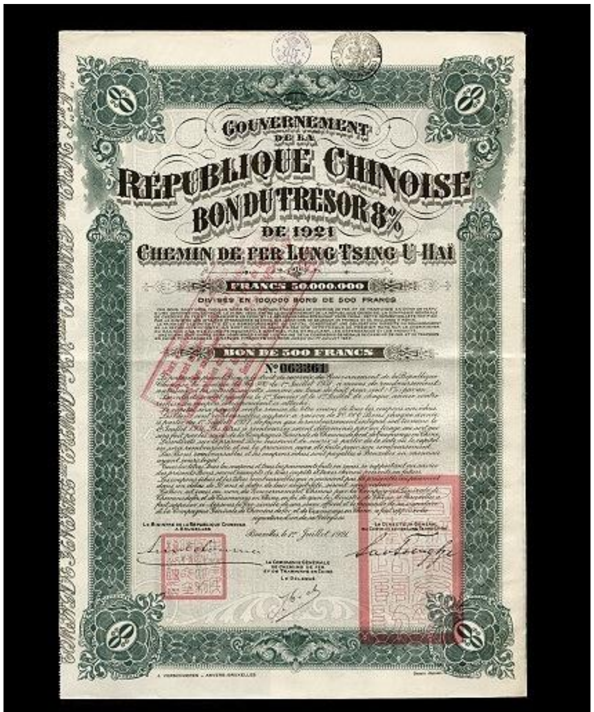


Marcus Junius Brutus (85 –42 BC)

Therefore, capital will concentrate internationally and rush around the globe today with greater speed than ever before. By no means do we find international capital flows to be a modern development. Capital flowed internationally in ancient times and there were varying rates of interest depending upon the credit worthiness of the borrower. Even during the late Roman Republican period when the legal rate of interest was 12% in Rome proper, Marcus Junius Brutus (85-42BC) lent money at 48% to the City of Salamis Cappadocia (Turkey) showing that he regarded the legal rate to be confined to Rome, not the Provinces.

Mexico - Bond issued in British Pounds

Here is an 1899 Mexican bond issued in British pounds when Britain was the Financial Capital of the World making the pound the dominant currency. Japan's prohibition against issuing bonds in yen without their approval blocked the yen from emerging as a major free currency. The Euro failed to reach that level and cannot because there is **NO** single federal government bond issue. The Euro is indistinguishable from all 50 states in the USA who issue their debt in dollars (single currency) but also have completely different credit ratings as all member states in Europe. Nobody in their right mind would assert that all the debt of the states should be AAA suitable for bank reserves to support the entire financial system. Why is that so hard for European politicians to understand? What they are defending with every citizen's net worth is their failure to comprehend financial economics at the basic level. They are destroying the entire future of the next generation and placing at risk the global economy disrupting capital flows all because of their pigheadedness.



Republic of China - July 1st, 1921 - 8% Belgium Francs

China also issued bonds in various currencies to relieve the buyer of currency risk. This included dollar during the 1920s as well as in Belgium francs as illustrated here in a 1921 bond paying 8% in francs. Today, numerous countries issue debt denominated in US dollars. This expands the market for dollars globally. This is the same concept of "paper gold" shorts for if the longs really demanded delivery, they would scramble to get the metal to cover. This is the same problem for the majority of the world is currently short dollars and they too would have to scramble to buy them back.

Despite all the ranting, screaming, yelling, prognosticating, and pontificating that the dollar will collapse – sorry! The dollar is the only game in town and **BECAUSE** of this international reliance on the dollar, the Federal Reserve cannot control the money supply. People highlight ***"reserve banking"*** as dangerous – but that has been the way banking function since the 1600s. So what is new? Now add to this the ability that anyone anywhere can create a contract in dollars or issue a bond in dollars such as many foreign governments and you further expand the global economic dollar base. The outstanding dollar loans and contracts among foreign nations and investors are huge. Then there is the $17 trillion in federal debt that is effectively dollars, which pay interest as they first began in 1863. Once upon a time when debt could not be used as collateral, in theory it may have been "less" inflationary to borrow than to print. However, today T-bills are used for collateral to trade and central banks use US Federal bonds as reserves that pay interest. Hence, the dollar debt is indistinguishable from dollar currency. Greenbacks once meant notes that were neither payable in gold nor paid interest.

The 1864 $10
Compound Interest Note

Greenbacks were the absence of redeemable in gold and interest

Welcome to the new **ONE WORLD CURRENCY** – the **DOLLAR!** Government and most analysts are still living in a theoretical world that is long since passed its expiration date. The old world of confined domestic relationships does not exist since it has evolved while the thinking is frozen in time. The variables and combinations are simply incredible. It now takes a global computer monitoring absolutely **EVERYTHING** just to figure out the interrelationships and how they will play out this time in the real world. What should we expect? How will the future unfold? Personal opinion is just not going to but it when no one live has gone through this. We have to rely upon every possible tool at this time.

Many have desperately tried so hard to concoct manipulation theories to explain why they have been wrong. They swear gold should be $30,000 an ounce right now. Speak wonderful sophistry but lack the understanding of the new complex dynamic world in which we live. The central banks are the **LARGEST** holder of gold. They are by no means trying to suppress the price of gold to hide inflation - **ABSURD!** The just alter the formulas and the press will always go along with it.

When the former communist central banks have been the buyers, why in hell would the major central banks want to keep prices low to benefit former rivals? Come on – it just makes no sense! Some of these theories are so desperate to explain why their one-dimensional thought patterns are dead wrong right now, they sound like a skit for Saturday Night Live. Whenever gold rallies, it is always “genuine” but every decline is because of some sinister dark force as if it were Darth Vader from Star Wars.

Money has simply evolved to a form that merely exposes what it truly has been all along – a medium of exchange and unit of account based solely upon **CONFIDENCE**. It has been everything from shells and beads to food and luxury goods such as precious metals. Gold and silver have little real utility value. They are valuable solely because of human desire.

Government does not intend to return to a gold standard – they want to eliminate money altogether and that will reduce everything to electronic entries. The impact of this evolutionary process is designed to eliminate tax evasion. They will get their pound of flesh on every penny and still spend more than they will every collect. In 1934, the Treasury issued even $10,000 bills. Today, the largest bill is $100. They are doing their best to hunt down assets offshore and to eliminate the ability to have cash other than electronic entries.

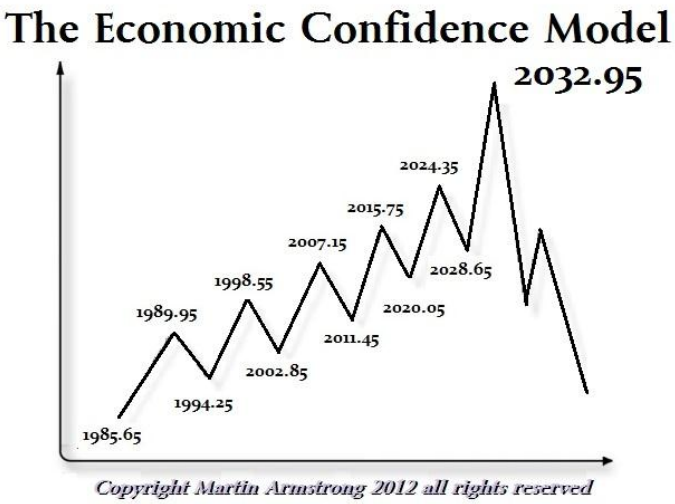
Many still are just obsessed with an idea that money has to be tangible. They somehow think this will restrain government from creating money and they think there should be no reserve banking. Effectively, they are arguing for a world with no credit, you have to pay cash for everything, yet surely, they expect to make “money” with rising investments and expect wages constantly to rise. This is a world they do not explore other than repeat just what they have been told.

THE PROJECTIONS

The prospects for gold bottoming in 2013 are not dead yet. What appears to be shaping up is an extension in the overall market. The $4000-$5200 target zone has not changed. A move up to that area is still within the bounds of a normal technical rally. Exponential moves are only possible if $5200 is exceeded. The primary difference in timing took place when 2012 closed higher than 2011, which was the kiss of death for short-term hope. That higher 2012 closing allowed the extension for a 3-year correction to move into 2015. Had 2011 remained as the intraday/highest annual closing, then a correction of 2-years would have targeted 2013 with a maximum being a 3-year decline into early 2014. The higher closing at the end of 2012 without electing a bullish reversal expands the time line.

If we adjust gold for inflation, we see that it has not yet exceeded the 1980 high, which stands at about $2300. This is the first level of major technical resistance as well. Beyond that level, the next real target area for resistance is the $4000-$5200 area. To reach that sort of level is going to require a declining dollar and that is **NOT** possible until **AFTER** we see the Euro and Yen collapse. Before then, the real risk is a rising dollar. Gold will rise in yen and euros. However, before a real bull market emerges, we need to see a rally simultaneously in dollars.

Gold is a hedge against government, that explains why gold rose from 2007.15 to 2011.45 sharply as the confidence in government was being called into question among some, but not all. The professional investors with huge money cannot buy gold when it does not provide a steady income stream. Consequently, institutional money must choose between stocks and bonds primarily. Hence, despite the sharp rise in the quantity of money, that was absorbed rapidly and failed to provide any inflationary pressure. Interest rates on the short-term even went negative as capital looked for a safe haven. In Europe, institutional cash has moved from most member states and has concentrated with more than 70% now in German government debt.



If confidence in government is now rising, as predicted by your model going into 2015.75, regardless of the inflation, people have confidence in government and the economy for now in the United States. Democrats on TV are actually claiming credit for the rise in the stock market asserting that the stock market always does better under Democrats than Republicans. Let it fall and see how quickly they blame the Republicans and some dark sinister force.

What our model suggests, is that gold will be in a bear market until 2015.75 and then enter a bull market into 2020.25. This will be about 51 years from the 1970 low. This will no doubt be of some concern but only if gold were to exceed the $5,200 level. If we look at the Pi timing from 1999/2000, that will bring us to the 2032 period. Nonetheless, it would appear that the highs in gold might come with the bottoms of the **Economic Confidence Model** not the highs. That gives us 2020.05 (January 18th) and 2028.65 (August 25th).

Presumably, we may see interest rates starting to crack in 2015.75 if that is the case, and confidence in government policy will decline for five years, with gold rising that period. Reactions are 2-3 years and thus a decline from the 2011 intraday high brings us to 2014. However, a 3-year reaction from the highest annual closing in 2012 takes us to 2015 in line with the turning point 2015.75, which seems to be worse case scenario.

Insofar as the price objective is concerned, technical support is typically the previous high, which in this case is the 1980 high of $875. Consequently, this is more of a water-boarding torture event with the sensation of drowning only. The Yearly Bearish Reversal lies at $685 area so unless we see an annual closing beneath that level, the long-term bull market remains intact. It does not appear likely that there will be anything but a short-term correction within a broader long-term bull market. Technical support connecting the 1864 and 1980 highs provide a target of $1050-$1078 between 2013 and 2015.

We are in the process of some serious economic evolution. It will take time before the majority wakes up and sees the global economy. The central bankers saw the global connections in 1927, but failed to grasp that the **Financial Capital of World** was the United States and no longer Britain or Europe. The bankers could not see the shift nor did they understand what was taking place.

The central bankers could never articulate this shift in economic power nor could the academics for they were too deeply engrossed with this idea of **"New Economics"** that placed the power to manipulate the world in the palm of their hands to guide government. As this contemporary cartoon illustrates, the United States was not yet seen as an equal.

It took George Warren (1874-1938), a farmer-economist from the lunatic fringe to convince Roosevelt to devalue the dollar. Roosevelt's entire ***"Brains Trust"*** who was his academic team was opposed to any devaluation just as they argue for austerity in Germany today. The idea is that money must be stable to support the debt and the bankers. Stable money is seen as more important than the welfare of the people. The problem becomes that such austerity supports the bankers and risks lower economic growth as deflation soars.

There remains the potential for the price of gold **AND** the dollar can rise together **ONLY** when the issue becomes a major capital flight on international capital flows. That did not materialize 1980-1985 since the gold rally began because of the declining dollar during the 1970s. We could see gold and the dollar line-up together this time, if more capital starts fleeing the rest of the world. Such a trend creates a bull market in the US dollar, US shares, and gold simultaneously. However, that scenario precludes gold rising to wild and crazy numbers anyhow and it certainly rules out the hyperinflation nonsense. This may limit the upside exposure for gold to the $5,000 area. The exponential rise in gold beyond that level would come only after the dollar peaks and capital then once in US dollars starts to shift from **PUBLIC** (bonds) to **PRIVATE** (assets).

There is so much bullishness out there concerning gold (bearishness on the dollar) that it is more likely to be a fight all the way down. There are as always many junior mining companies who have no production whatsoever. This was the hallmark of the 1980 high as well. The miners would be seized if gold crossed the $5200 area just as the US army seized the railroads August 27, 1950.