



The DOLLAR VIGILANTE

SURVIVING & PROSPERING DURING AND AFTER THE DOLLAR COLLAPSE

[-Return to the Full Subscriber's Main Page](#)

Welcome to the October 2010 Full Edition of The Dollar Vigilante

Volume I, Issue 4 / October 2010

Dear fellow Dollar Vigilante,

Welcome to an information filled edition of The Dollar Vigilante! It has been an action packed month of September and there is almost too many developments to cover in one issue - but we are going to try.

Here is a snapshot of the ground we cover in this edition:

- The continuing decline of the US & the rise of most of the rest of the world
- Ireland looks to be the latest of the PIIGS in serious trouble
- We explain why Globalism is not the reason the US is in trouble - the real reason may surprise you
- We begin to warm up to US property and explain how the Chinese may save US real estate
- We declare gold is at the foothills of a mania and show proof why it has a long way to go higher
- In Ed Bugos' Economic Analysis, he shows why the Canadian dollar is worse than the US dollar
- In the Markets section we look at gold and how it could hit as high as \$1650 before correcting
- We show why the junior miners are taking off driven by a wave of mergers and acquisitions
- In our Expatriation section we show why Mexico is the safest and most free country in North America
- In the Survival section we discuss how the Sun itself is a far bigger threat than any terrorist

And more, including updates from the Original Silver Trader and Private Parts in Afghanistan.

Phew. I told you it was a lot.

I am currently in San Diego at the Casey Gold & Resource Summit and have been happy to meet with some of our subscribers, who are some of the most interesting people in the world - and I mean that in a good way.

And for those who will be attending the San Francisco Hard Assets conference I will be speaking at that show on November 21st, bright and early at 7am. Please let me know if you will be at the show as I am always thrilled to meet our subscribers who I don't just consider "readers" but an active part of our dollar crash survivor community!

And with that, let's get started! Thanks again for subscribing!

J Berwick

Jeff Berwick

Chief Editor



The Big Picture
by Jeff Berwick

It is with breathtaking speed now that two massive global shifts are taking place. Two major changes in the world as we know it - and both of them are the basic underlying theme of this newsletter: The collapse of the US Dollar financial system and the return of gold & silver as money.

Both of these events are, of course, heavily intertwined.

But what is fascinating, even to us here at The Dollar Vigilante, who have predicted almost everything that has come to pass in this regard to date is the speed with which it is all accelerating now. There are dozens of headlines per day with incredibly important paradigm shifts in how the world now works on a financial and geopolitical basis.

However, it should be noted, that just because these events are accelerating it does not mean we are necessarily within days or months of the "end game" - a collapse of the US Dollar and the global financial system centered around it. This could still drag on for another few years. Or it may not. We are in uncharted waters.

The US Continues to Falter While The Rest of the World Goes About Business

It is becoming more obvious by the day that the US, the world's greatest superpower for much of the 20th century, is barely even a player in the 21st century. In fact, two of the biggest superpowers of the last century have been reduced to bit roles on the global stage.

The US and Britain are bankrupt and are becoming varying levels of socialist police states. Where is the news of US or British interests buying up African or South American resources? Financing international megaprojects?

Most of the movements in the US and UK are internally focused - mainly at how to get the last pennies from their overtaxed and heavily indebted citizens. Britain is moving towards **having all paychecks in the country deposited into government bank accounts** prior to being released, after taxes levied, to the groveling masses. And they are even looking into using **lie detector tests on British families** just to make sure that the government doesn't miss a penny of tax income.

Meanwhile, in the US, **federal agencies and police departments were in attendance** to see a demonstration of a system that trawls phone conversations, emails and instant messages to detect "resentment toward government," alerting authorities to potential "terrorists" who are then placed under surveillance at a recent International First Responder-Military Symposium held at Hilbert College.

Any externally focused events coming from the US & Britain are mostly in regard to wars, occupations and entangling alliances.

Contrast this to what much of the rest of the world is doing. Where's the action? China. Russia. India. Brazil. Indonesia. Malaysia. Vietnam. Thailand. Colombia. Ghana. Kazakhstan. And many more.

In early September it was announced that China and Russia plan to start trading in each other's currencies as the world's second-biggest energy consumer and the largest energy supplier seek to diminish the dollars role in global trade.



Russian President Dmitry Medvedev (left) with his Chinese counterpart Hu Jintao arrives for a welcoming ceremony at the Great Hall of the People in Beijing on Sept. 27, 2010

China also announced it plans to build two nuclear power reactors for Pakistan. The Chinese Foreign Office's Jiang Yu said, "China plans to help Pakistan expand its Chashama nuclear energy complex in Punjab by building two reactors in addition to the one already operating, and another under completion."

Japan and India are forming alliances for increased trade. The Indian commerce minister was in Tokyo in early September after agreeing in principle to an Economic Partnership Agreement with Japan. Prime Minister Manmohan Singh will be in Tokyo in October to sign that deal once the Cabinet clears it.

Also, with not even a pretext of caring what the US thinks of the matter, Japan intervened in the foreign exchange market to sell 2 trillion yen (approximately \$24 billion USD) for US dollars in an attempt to slow the Yen's dramatic rise versus the US Dollar.



The intervention was a failure, much like an earlier attempt by Switzerland to slow the rise in the Swiss Franc. Governments are finding out that interventions are best left to the A&E Channel. But the point is that there was hardly a word uttered from Washington who has resigned itself to being a follower and not a leader on the world stage as it is the most indebted nation in world history and is in no position to tell its lenders what to do.

European Disasters Will Soon Return to Headlines

It may have seemed quieter in Europe of late but don't let that lead you to believe that the problems in the PIIGS (Portugal, Italy, Ireland, Greece and Spain) are anywhere near close to over.

Ireland has been busy bailing out their own banks and the country's budget deficit will balloon to 32 percent of gross domestic product this year. 32%! That is banana republic type numbers.

Ireland aims to cut it to the European Union-agreed 3 percent by 2014, the Finance Ministry said. Not in a "democratic" system they won't. Try cutting off huge amounts of benefits to the public and laying off huge amounts of government bureaucrats will simply not be allowed. [Take a look at this news story and video](#) about how Ecuador's President, Rafael Correa, was forced to flee from rioting police officers and ended up hiding in a room in a hospital from the rioters. And all the President of Ecuador tried to do was "cancel bonuses and promotions". Imagine what would happen if he actually tried to lay off a few government workers! Irish Prime Minister, Brian Cowen, better get ready to find a good hiding spot if he tries to cut a 32% budget deficit down to "only" 3% in four short years.

In the end, however, a budget deficit of 32% or 3% of GDP doesn't make much difference. Ireland and the other PIGS are drowning in debt and their economies are shrinking. It is a moot point now whether they add debt at a fast or slower rate. They are drowning. The only difference is whether they are drowning from having a stone tied to their legs or if they are drowning from exhaustion.

What Is The Real Cause of the Problems in the US?

Many Americans seem to now be awakening to the fact that their country has been hollowed out from the inside like a termite infestation. However as is almost always the case the blame is getting put on symptoms of the problem, not the real reason why the USA has seen its wealth robbed and eroded over decades.

Faced with a horrible unemployment situation and the appearance of many companies moving out of the US to countries such as China and India many point the finger of blame at "globalism". But companies aren't necessarily leaving the US just because it can be cheaper to operate in other regions. The problem is much deeper and has more to do with companies escaping high taxation, ridiculous amount of regulation and moving to regions that are growing as opposed to the US which is in a terrible state of disrepair and only getting worse.

Globalism (which actually began 450 years ago with the [Spanish Galleon trade between Acapulco and Manila](#)), or free trade (if it is actually free trade and not some World Trade Organization monstrosity) is not a problem nor is it a problem for the US - removing obstructions to trade can only improve living standards. It would take hundreds of pages to fully outline what has brought the USA to where it is today but to state it as briefly as possible, the great majority of the problems in the US today derive from the one thing that most Americans today believe is what their country is "all about": Democracy.

Democracy Destroying the US

The idea that conceived America was freedom and liberty, not democracy, although you'd never know it by listening to the average American today or the political leaders who occupy foreign lands in order to "spread democracy".

Most of the fathers of the constitution believed democracy was the biggest threat to it, and endeavored to prevent it, but the flaw was that their constitution still conformed to it.

Any constitution is insufficient to restrict the scope of a government operating under the democratic principle. The problem is precisely that democracy, or the democratic republic, defined as the system of elected representative who don't 'own' government or have any stake in it beyond their short stint, is at odds with freedom and corrupts the electorate.

Democracy has taken on an idealistic form that has replaced classical liberalism as a goal - not merely a technical form of government but as an end unto itself.

And now many Americans are realizing something is very wrong with their country - which is good to see. But because they have such a limited understanding in what the original founders of America created and have had so much propaganda fed to them their whole lives, they continue to reach flawed conclusions.

The Tea Party, for example, claims to want to return to honor the Constitution as constructed by its framers. But clearly it didn't work before and the solution is not to revive it. It is flawed in actuality on many counts.

What the American people would do well to understand is the difference between democracy and freedom, and recognize that it is the latter that should be credited with all the progress of history. The US doesn't have real democracy nor should it want it, but what it has is big government controlled by a handful of elites that operates under the democratic lie in its own interests.

Only by disposing of democracy can government be restricted. Americans were fooled by Alexander Hamilton in the past. He explicitly wanted big government and the route he took was to indebt the government. He favored an expansion in government debt and a central bank to underwrite it. It was because of this debt that the income tax and the Federal Reserve arose in 1913.

Americans were able to keep central banking out of the US until then because the government and the progressive movement were relatively small before the civil war. It was the subsequent growth in the powers of a central government (ill gotten through democratic demagoguery) that created the need and desire (by the new privileged elites) for a central bank.

The Federal Reserve is Destroying What's Left of the USA

Which brings us to the Federal Reserve, which came about as a result of the democratic system and has impoverished the US over decades and continues to do so.

Central banking offers no benefits to society at large and contributes, mostly through the process of inflation, to numerous serious problems. The following are just a few of the issues engendered by central banking and inflation:

- It hinders economic calculation and causes capital consumption and malinvestment

- It taxes fixed income earners (savers and fixed wage laborers)
- It discourages saving or forces savers to take more risk
- It encourages general consumption and debt
- It benefits debtors (especially government), speculators, politicians, lobbyists, and fractional reserve banks
- It produces the business cycle -boom/bust sequence
- It rewards corruption and corrupts morals
- It causes capital decumulation (the formation of capital in reverse) due to several of the above
- It bolsters the growth of government and therefore the trend toward decivilization
- And if not abandoned it can result in a crisis of confidence, total impoverishment and chaos

By continually manipulating interest rates away from their natural free-market level central banks distort the pricing mechanisms by which entrepreneurs, businesses and consumers make decisions. This continual distortion results in massive amounts of wasted resources as capital gets invested in unsustainable areas and soon after that capital is destroyed. Row after row of empty houses in Florida, Nevada and Arizona are excellent such examples of capital that was put to work in the wrong area because people were fooled by artificially low interest rates into believing there was a large need for new housing.

This boom and bust process has been recurring over and over for decades now and the boom/bust cycle is now accelerating as the system nears collapse. This continual boom/bust cycle and massive amount of malinvestment has destroyed trillions of dollars in wealth and is the real reason why the US is in such terrible shape today.

Yet, despite decades of impoverishment caused by the Federal Reserve, who is it the American public look to in order to fix the problems? Unbelievably, they look to Bennie and the Feds.

We produced this [short video and remade Elton John's, "Bennie and the Jets"](#) to help raise awareness and poke a bit of fun at the ridiculousness of having Ben Bernanke and the Fed in charge of trying to fix all the problems they caused.

US Housing Market

Besides "globalization" another "cause" of the current crisis offered up by talking heads on CNBC and the US mass media cabal is housing. According to them this whole financial crisis was "caused" by the housing collapse. But what caused housing to collapse was the creation of a housing bubble.

The housing bubble and subsequent collapse was caused by the US government (through it's veritable ownership of Fannie Mae and Freddie Mac) and by the Federal Reserve lowering interest rates to near zero after the Fed induced tech bubble collapsed. The solution was the cause, but most people abandon the analysis early because they are taught that the purpose of monetary policy is to offset the vagaries of the free market. They see the instability and presume it is inherent to capitalism, and just like FDR saved the economy & banking system (they were taught) in the thirties the solution is to offset market failures (but it causes them).

However, whether it is seen as the problem or is correctly seen as just a symptom of the problem one thing is for sure: the collapse in house prices is not over and will continue to cause major problems in the US.

Analysts from Moodys Analytics, Fannie Mae, Morgan Stanley, and Barclays produced joint analytic report on the terminal condition of the US housing market. They expect another three years of price declines, due primarily to the chronic rise in home inventory. Another two million houses will be seized by lenders by the end of next year, according to Mark Zandi, chief economist of Moodys Analytics.

The number of bank owned and foreclosure bound homes that have yet to hit the market is closer to eight million. That amount of foreclosure forced-sales will wreck havoc on the US real estate market. The bottom could be reached when condos in some areas are being sold for \$0, only requesting that the buyer pay back taxes and overdue utility payments and condo fees.

China to Save the US Real Estate Market?

In a bizarre twist of affairs, one slight glimmer of hope for the US real estate market may come from Chinese buyers. We talk a lot about the problems in the US in TDV but China has plenty of problems of its own - and because of these problems, they may end up saving the US real estate market from complete ruin.

China is gripped by a genuine inflation panic right now. China was even more profligate than the US with their own version of "stimulus" and they have stoked a real estate bubble of epic proportions. People in China, who are more savvy in regard to inflation and currency crisis than their American counterparts, know that holding cash (Yuan) is a losing proposition. That is what is driving the Chinese real estate market - a flight from cash.

Bizarrely, at the same time that the US is experiencing an epic real estate crash, China is experiencing a huge boom. That is one of the biggest problems with inflation - you never know where all that freshly printed fiat currency is going to find a home.

And here is where China may save the US real estate market from total ruin. The Chinese see American property as being inexpensive and instead of plowing their money into expensive properties in China they are turning more towards American real estate.

In fact, it's not just the Chinese. Wealthy Latin Americans from socialist paradises such as Venezuela and Argentina are looking to get money out of their own countries as well. It's a global game of musical chairs as everyone is fleeing their own countries and the dead hand of the taxman and their own money-printing governments.

And so, real estate in the US in southern warm weather locales may actually be saved from rock bottom by the Chinese (perhaps preferring California), Venezuelans and Argentines (who will likely gravitate to the Miami area with its strong

Latin American roots) and even Canadian snowbirds and Las Vegas from going no bid.

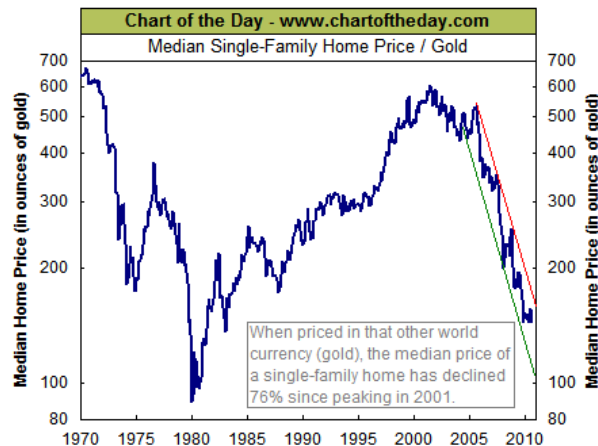
We don't expect foreigners to save the US real estate market completely but they certainly could put a floor on property prices in certain regions. In effect, if this were to occur, it is basically the "selling" off of the US. The only chance the US real estate market has to avoid complete implosion is by selling off the majority of its valuable land to foreigners.

But even the foreigners won't be able to stop a further serious (30-50%) drop in US real estate as 8 million foreclosure properties hit the market. And those foreclosures will bring the next wave of bank failures (more on that below).

US Real Estate Not the Worst Place To Be

It should also be pointed out that with the ongoing massive inflation and with mortgage rates at historical lows in the US, buying US real estate in areas that are attractive to foreigners is beginning to look like a reasonable investment.

Gold and gold stocks should outperform US real estate (and has been, see chart below) by a wide margin but buying US real estate with leverage (little or no money down) in places like Florida, Arizona and California may be a decent investment, even if house prices continue to slide significantly lower - as we expect.



An investment of, say, \$200,000 into a Florida home with mortgage rates locked in for 30 years at 4% could see those mortgage payments inflated away significantly, if not completely. And so, even if the home were to decline to \$125,000 in the short term it still may make some sense to buy now. In effect, you are selling your US Dollars (something we always recommend here at The Dollar Vigilante) and getting something tangible for it prior to the collapse in the value of those dollars. And once the dollar collapses your mortgage payments may turn out to be \$0 if the dollar is hyperinflated.

And, as we stated above, barring massive social unrest, which is a possibility in many parts of the US, there should still be pockets of peace, possibly in places such as Florida.

And so, by buying a property in Florida now and getting a 30 year mortgage with very little down payment you could end up basically getting a free house, 3-5 years from now.

The risk is that the US collapses so terribly and becomes such a police state that you may not want to live there. In this case, try to choose locations that are less population dense and have large amounts of seniors - 70 year old people won't generally be out in the streets rioting, and even if they are, chances are pretty good you can outrun 'em.

Also look to buy in areas mostly owned by foreigners or by Americans who seem to still have a sense for freedom and liberty such as in parts of Texas. In any really bad collapse of the US these pockets of areas could end up essentially "breaking away" from the federal US government system and essentially declaring independence.

We prefer to own precious metals, agriculture and energy as well as real estate in places such as Mexico, Argentina, Dominican Republic, Nicaragua, Thailand, Cambodia and many other locales. But a purchase in the right area of the US for little/no down payment and a 30 year mortgage at 4% looks like a decent mid-term speculation at this point.

Although it may make sense to wait just a little while longer until prices drop further and the millions of foreclosures hit the market - something that will contribute to a second wave of bank failures in the US.

Foreclosures Will Continue to Drive US Bank Failures

Some 279 banks have collapsed since Sept. 25, 2008, when Washington Mutual Inc. became the biggest bank failure on record. The failures of the past two years shattered the pace of the prior six-year period, when only three dozen banks died.

Failures are expected to "persist for some time," according to a report issued Tuesday by Standard & Poor's. In the second quarter of this year, the Federal Deposit Insurance Corp. increased its number of problem banks by 6% to 829.

Between failures and consolidation, the number of U.S. banks could fall to 5,000 over the next decade from the current 7,932, according to the top executive of investment-banking firm Keefe, Bruyette & Woods Inc.

All of these present and future bank failures all have their roots in the US real estate market crash. And the following issues are looming large:

- An option arm reset wave set to continue through to 2012
- A coming wave of re-defaults on previously modified mortgages

- Looming defaults on all the new no down payment FHA mortgages
- 1/3 of homes are already under water and will only rise if prices continue to collapse
- Without much hope for real demand against a background of high unemployment that is showing no sign of slowing (see chart below) and declining real incomes



Now Even the Banks Are Fleeing the US... To Iran?

As US banks are falling like dominoes the "too big to fail" banks are heading to Iran, of all places. A Tehran-based daily newspaper reported last week that four American banks, including Citigroup and Goldman Sachs have filed requests with the Central Bank of Iran. If approved they will be able to open branches in the Iranian free trade zone, and later perhaps in Tehran.

While this news brings up many questions it also answers some questions. Like, will the US or Israel attack Iran? The answer is almost clearly no, given these events. Goldman Sachs, for all intents and purposes, is the government of the US and if they are moving into Iran then they almost certainly will not allow Iran to be attacked.

If this news is true it also is clearly a major shift in the western view of Iran. From potential enemy to potential lucrative business partner.

What Choices Does the US Have Left?

The US has "choices" but none of them are good. There are four things they can now do to end this spiral and have some hope of rebuilding. The four choices are these:

- 1) Decrease entitlement spending by a massive amount
- 2) Increase taxes by a massive amount
- 3) Default on its Sovereign debt
- 4) Inflate the debt away by massive devaluation of the US Dollar

Given the current political and social atmosphere we believe that route #1 does not seem possible. Cutting social security payments by 50% or more or cutting any one of the thousands of government programs would result in massive social unrest as millions would be thrown out into the streets penniless.

Option #2 is unworkable. Increasing taxes significantly at this point would only result in less tax revenue as the economy would implode even further.

So, that leaves options #3 and #4 as the only feasible options.

Option #3, defaulting on the debt, would actually be the healthiest and best way to end this financial crisis and still have hope to rebuild after a few years of transition. It would also be the most moral thing to do as it is clear to anyone with a cerebellum that the US is long past insolvent. The right thing to do is to face the music, default on the national debt and try to allow the free market to start again from scratch.

But, the big problem with option #3 is that whoever is in power at the time of the "Great Default" will go down in history as being responsible. While Obama and Bernanke are definitely responsible to a significant degree, it isn't all their fault. They were both handed a system that was long past defunct - their great gaffe was in even accepting the job of President or Fed Chairman. But now that they have accepted the job, and since both of them have literally no real world experience and may not even understand the situation they will be very hesitant to be the ones to pull the trigger.

And so, that leaves the only politically acceptable option, #4. Destroy the US Dollar. And that is why gold hit new all-time highs nearly every single day for the last two weeks.

Gold at Foothills of a Mania

In a [blog posting](#) on September 14th, Ed Bugos stated it perfectly, "We are indeed at the foothills of a (gold) mania."

The connotation of "foothills" is a perfect way of stating precisely where we are at in the collapse of the US Dollar based global financial system and the return of the king, gold, as money. It is perfect because while we are certainly seeing a movement towards a mania, with gold hitting fresh all-time highs in US Dollar terms on almost a daily basis throughout September, we are still far from reaching the top of the mountain.

We have a) begun to enter into the mania stage but b) we are still a long way from reaching its peak. Here are arguments and proof for both statements.

Indications that the beginning of a Mania Has Started

We borrowed the following illustration (below) from Dr. John Paul Rodrigue of Hofstra University because we thought it gave an excellent depiction of the progression of most manias. However, it should be pointed out, that we don't necessarily see gold as being in a "typical bull market". What we believe we are witnessing is the return to gold as money after decades of suppression. However, we believe that the mania phase of this progression will transpire. The part of this graph that does not make sense in terms of gold is the part after the "New Paradigm" is reached.

It is our belief that once we reach the new paradigm, it actually will be the new paradigm. There will not be any denial nor "return to normal" because returning gold to functioning as money is in itself a return to normal. That is not to say that certainly gold will likely overshoot, by a great amount, its "true" value at the height of the collapse of the US Dollar based global financial system in terms of its value in comparison to other goods. And there will be a time when it will make sense to sell some or all of your gold in favor of other assets. But for our purposes lets use this chart to try to guesstimate where we currently are in the mania stage of gold.

In our opinion the "Stealth phase" was the phase between 2001-2004 when absolutely no one but a few, such as our all-star Senior Analyst, Ed Bugos, were pounding the tables to buy gold and gold stocks - but no one listened.

For those that have been invested in this sector since 2004, you will recognize the period from 2004-2009 as being the awareness phase. Many junior precious metals stocks, such as Osisko Mining (T.OSK) and literally hundreds of others were all of a sudden going from \$.25 to \$5 and doing massive \$50 million+ financings with savvy institutional investors.

And, for those of you who lived through the brutal sell-off of 2008, you will recognize that as being the "first sell off / bear trap" on the chart below.

And that brings us to August of 2010, which began the very first baby-steps into the mania phase. You can see all the signs of it around us now. Gold is mentioned more and more in the media and it has begun to start making all-time highs on a regular basis.



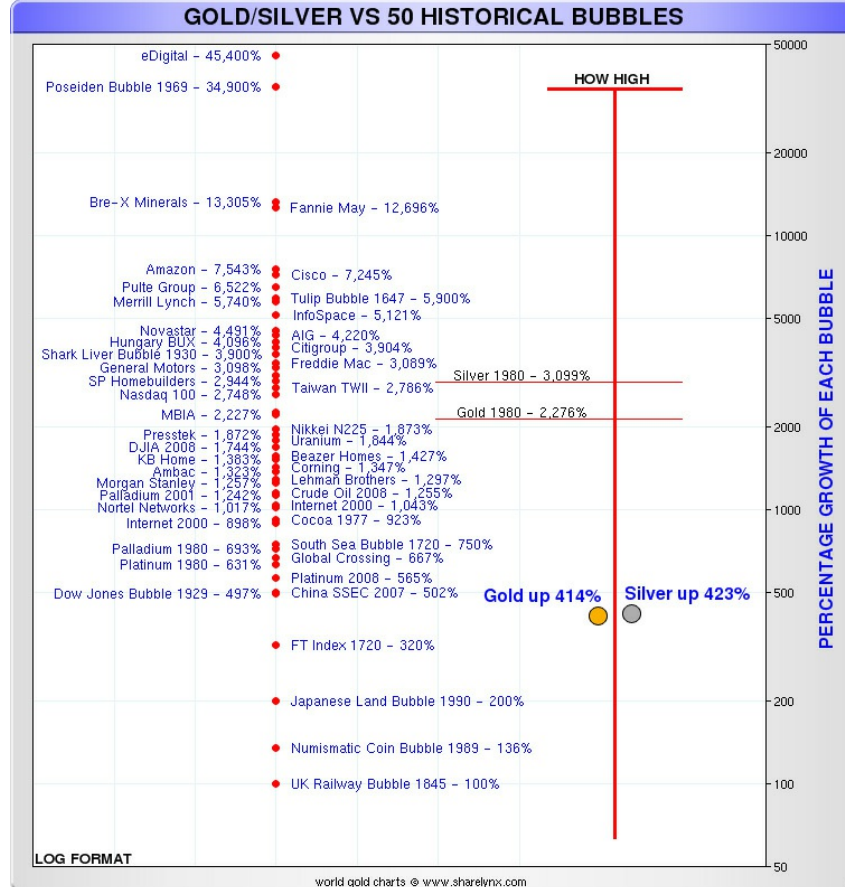
The dumb money, governments and central banks, are finally starting to catch on to what is happening. The central bank of Bangladesh bought 10 metric tonnes of gold from the IMF on September 7th. This is on top of 212 tons of gold the IMF sold last year to the Reserve Bank of India, the Bank of Mauritius, and the central bank of Sri Lanka. And Saudi Arabia, Russia and the Philippines have recently announced big additions to their gold reserves.

Even Jim Cramer now likes gold. If that isn't proof we have begun the mania phase we don't know what is.

Gold No Where Near Peak

But how can we be sure that we aren't very close to the peak in the precious metals market? Nothing is certain in life but there are numerous indications that we are still early on in the mania phase.

First, Nick Laird who runs the superb gold-data website, Sharelynx.com, and is a subscriber to TDV, gave us permission to use a chart he put together comparing gold & silver at its current levels to 50 historical bubbles.



As you can see, if we are near the top then this was one of the most disappointing bull markets in bubble history! In fact, just to match the gold & silver bull market of the early 1980s gold would have to quadruple in price from here to \$5,200 per ounce. And we think this bull market will be much stronger than the 1980 bull market.

What Will "The End" of the Bull Market Look Like?

We dug up a copy of the front page of Canada's Globe & Mail Newspaper from January 4th 1980. [You can view it here.](#) This is what the end of the last bull market in gold looked like. The news story features countless stories of line-ups starting very early in the morning with many people even admitting to having called in sick to work just to line up to try to buy gold coins. And from Toronto to London to Paris they were all sold out and there was an "absence of sellers."

That is what the end of a mania looks like.

Now, take a look at this headline from the Calgary Herald on September 14th. "[Calgarians Rush to SELL Gold After Record High Hit](#)". They were lining up to sell gold! Nothing could make us feel more content in our position on gold than headlines such as this. When we start seeing headlines that Calgarians are lining up to buy gold, then we may start to look around for an exit. But it's obvious we are a long way from that.

Gold Slowly Returning As Money

There are almost daily stories now from around the world of small movements towards using gold & silver once again as money.

In Malaysia, gold Dinar and silver Dirham coins were introduced in early August by an opposition Islamic political party. Umar Ibrahim Vadillo, an officer with Kelantan Golden Trade, revealed that the first batch of gold and silver coins worth two million Ringgit (US\$625k) were sold out in less than a month. The response apparently has been enormous in Malaysia. In Kelantan, businesses from garage owners and taxi drivers are using the gold and silver coins. Even civil servants in Kelantan are paid up to 25% of their salary in Dinars and Dirhams, if desired.

As well, in neighboring Indonesia, we featured a video in a blog posting entitled, "[Indonesians Get It](#)" where it shows that slowly gold Dinar and silver Dirham are returning to circulation in that large muslim country.

Even in Michigan this news story, "[Competing Currency Being Accepted Across Mid-Michigan](#)" shows gold, silver and even copper have begun to slowly be used as money. Notice, however, how the American article treats gold & silver as being a possible "novelty" and make ridiculous statements such as this when referring to gold & silver coins, "They sound like real money and look like real money."

Sadly, Americans have been so repressed, even having private gold ownership outlawed for a good portion of the 20th century that they are much slower than the Malaysians, Indonesians, Chinese and others to even realize what is "real money" anymore.



Is the Canadian Dollar Better than the US Dollar?

We have seen countless articles and analysts stating that "commodity currencies" such as the Canadian Dollar (CAD) are much better bets than the US Dollar. But is this really true?

We find it odd that people think currencies like the CAD are better than the US dollar just because it is currently rising. Do we have such a short term memory? Only about a decade ago everyone in Canada thought it was going to \$0.50 American and many felt it was going to zero (which it is, over the long run).

The true test of the worth of a currency is its global circulation. The CAD doesn't have circulation beyond its borders. US dollars are accepted virtually world-wide. But the CAD is worthless (to vendors) once you get past Bellingham (Washington), Buffalo (and even Buffalo is iffy, [according to this news article](#)) or Houlton (Maine) going south.

The world wide acceptance of US dollars has nothing to do with the US government forcing it down people's throats - although they do try. It comes from decades of trade with the US, but also, because it is a relatively sounder currency over the long run. A lot of people think a currency's value is a function of government decree or strength of the economy or of the trade balance. But it's not. The purchasing power of money has nothing to do with any of that.

It is a function of the interchange between the supply and demand for money. And the foreign exchange rate is a function of the ratios of the purchasing power of money relative to the purchasing power of another. The comparison of two currencies is thus simple - the one with the worse monetary policy is least sound. Almost nothing else matters.

To show that the CAD is less sound all we need to do is show that the Bank of Canada inflates money at least as much as the Fed, and that the CAD has not held its gold value any better than the US dollar since at least 1971.

But in the end, the reserve currency is by definition the most sound. It's the one the other Central Banks think is most sound too - they may be slow but they aren't generally stupid. They're not forced to accumulate and hoard it after all.

It is amazing how short the memory span is of the average person. In 1999, after just 5 years of strength in the greenback, the whole world thought it was invincible. From 1971 to 1980 and from 1985 to 1995 it was highly disdained. For 20 of the 30 years prior to 1999 it was weak. But it only took five years of strength to make everyone forget about that.

This delusion, supported by strong dollar policy rhetoric and the subsequent breakdown of this delusion gave the gold bull its start.

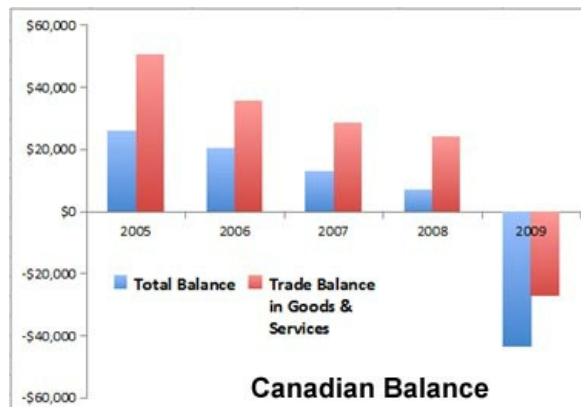
Here at TDV we believe the US dollar is going to continue to lose its reserve currency status - which in effect will result in a collapse of the US Dollar based financial system. But that doesn't make it the worst currency.

When the US dollar loses its reserve currency status world trade will break down, and it will take many "currencies" down with it.

Foreign governments don't want the US Dollar to collapse. None of them want to move to gold. They prefer the dollar because it allows them to inflate with less fallout in their currency values (if the reserve currency is also fiat) because the dollar is being debased also. They just do not like it when the Fed inflates too much because they run mercantilist trade policies and don't like it when their currencies appreciate.

Implications for the CAD

So if Canada's current account balance has been plummeting, which it has (see chart below), what it means is that the Loonie is losing purchasing power faster than the American dollar. The trade data doesn't tell us anything about the future, but there is a lot of pent up inflationary consequences for the Loonie. The Bank of Canada (BOC) has run a very inflationary policy that has been obscured by the focus on the weak US dollar and related demand for CAD denominated assets.



The US dollar is a reserve currency because it has been a relatively sounder currency than most others. But because of decades of abuse it is losing this status, allowing other currencies like the CAD to rise in spite of their own typically larger abuses. We are neutral-bullish on the CAD short term but in the long term, if the US dollar collapses, the CAD probably couldn't stand on its own two feet.

Conclusion

A weak US dollar causes problems for almost everybody else and fans the flames of political animosity. But it is also the only real money - the only real competitor for gold. That's why the US dollar gold price is important. It's also why the US dollar might rise on foreign exchange markets even while it is losing reserve currency status vis-à-vis gold.

But to buy the Canadian dollar as a hedge against US dollar collapse is, in our opinion, a very shaky idea.



The Markets

CURRENT MACRO OUTLOOK

SECTOR	SHORT TERM	MEDIUM TERM	LONG TERM
	0-3 months	3-12 months	1 year+
US Stock Market	**BULLISH**	**NEUTRAL**	Neutral
USD Index	**BULLISH**	Bearish	Bearish
US Interest Rates	Bearish	Bearish	Bearish
Gold	Neutral	Bullish	Bullish
Gold/Silver Stocks	Bullish	Bullish	Bullish
Commodities	Bullish	Bullish	Bullish

***Highlighted areas show change from last month. Color shows in which direction it has moved from last month. Red=Downgrade Green=Upgrade*

It was a very eventful September to say the least.

Gold barely registered a down day for the entire month and recorded day after day of all-time highs and the Dow Jones Industrial Average recorded its strongest September since 1939. Meanwhile the US dollar was headed in the exact opposite direction - which explains the strength in gold & the Dow.

Let's start first with a look at gold's amazing run for September:



And now, take a look at the US Dollar:



The charts of gold and the US dollar for September look like reverse images. What we are witnessing is not so much a rise in gold, which hasn't gone on to make new highs in most other currencies, but a continuing collapse of the US dollar.

This collapse in the US dollar portends well for gold and the US stock markets. The inflation trade is increasing confidence in the economy.

We have therefore upgraded our short term US stock market guidance to bullish and upgraded our medium term guidance to neutral (from bearish).

Conversely, we have upgraded our short term view of the US Dollar to bullish, but only because we see a "deadcat" bounce to be a possibility.

Gold

If the Dow is about to break out to a higher high (i.e. past the April high) and make a run for 12000 it creates some short term risk for gold. Gold is susceptible to a correction as the risk trade unwinds. But the correction would be healthy, and limited -as the outlook for the economy and stocks is not likely to get too bright, and the inflation trade is likely to remain a key driver.

It is also likely to be from higher levels. We expect gold stocks to hold up and rise with the Dow in this environment as there is a lot of sidelined money that has been out of these equities for the last \$300 move in gold.

If on the other hand the Dow doesn't break out, say because of a bad quarter in earnings, and turns back down towards the summer lows, the risk trade returns and the QE II theme is likely to gain new subscribers. In this scenario gold prices and gold stocks are likely to erupt on the upside. Either way, though, the gold stock averages are in the midst of a break out into new high territory.

We continue to believe that the biggest risk, at this moment in time, is being completely out of the gold market. We are not going to attempt to time short term trades at this juncture because we do not want to risk being too light this sector and end up chasing the train - something that happens often in true bull moves.

Our target for gold is still a \$1400 high in 2010 and for the HUI it is about 675 in the next 9 months. It is possible that gold spikes as high as \$1400, and even as high as \$1650 before the market gets a correction of any significant magnitude. Clearly though the implication in our forecast is that the gold shares, especially juniors, are poised to outperform gold in the short and medium term.

This is because while the gold shares have been among the best performing equity sectors since the 2008 calamity the averages have not posted new highs like gold. They are in fact just now snuggling up to their 2008 highs. In other words, gold stocks have underperformed the price of gold despite the fact that the gold price has risen faster than production costs in this same period. The ratios of gold stock (averages) to gold prices is about 30% off its 2008 high in all instances, with the juniors faring even worse. With valuations in gold shares moderate relative to their 2006-08 levels we conclude,

- 1) there is no bubble
- 2) gold stocks are cheap

What is likely to happen is that, assuming gold prices complete their current spike shortly, gold stocks will hold up on the subsequent gold price correction and begin to lead the advances, ultimately outperforming gold in the medium term.

Note, however, we are not saying that gold stocks are going to outperform gold prices over the course of the bull market. This is in fact highly unlikely, at least for the producers. The juniors are another story.

Wave of Gold Mergers & Acquisitions

Some majors are looking ahead. The relative performance of gold and the strengthening outlook this summer prompted a wave of mergers and acquisitions, in some cases at valuations that appear frothy.

Kinross and Goldcorp have been very bullish in the prices they've been willing to pay for good quality ounces in the ground reflecting both the need to grow or replace resources and an increasing scarcity of good quality world class deposits.

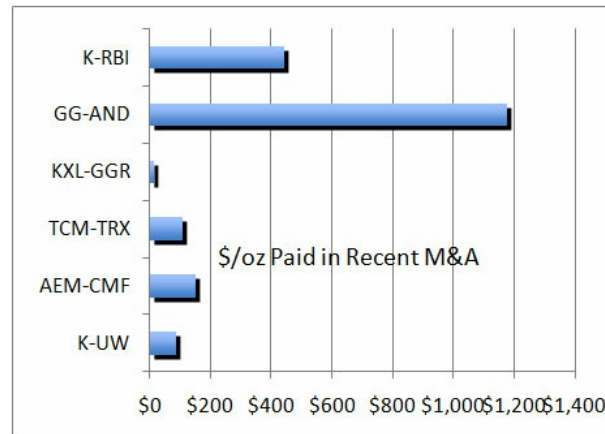


Chart Code: K-RBI: Kinross buys Redback; GG-AND: Goldcorp buys Andean; KXL-GGR: Kodiak buys Golden Goose; TCM-TRX: Thomson Creek buys Terrane; AEM-CMF: Agnico Eagle buys Comaplex; K-UW: Kinross buys Underworld

Buyouts Driving the Junior Mining Sector

The majors have underperformed the averages in recent years despite reporting increasing cash flows. The reason is that they don't have growth. But there are pressures on these companies to at least keep up.

Kinross has lagged because it has a lot of risky assets and has not been able to grow its resource base organically. Goldcorp has been lagging because it has bought a lot of stuff and it has not gone through a tough enough cycle yet in its new enlarged form to cull the inefficiencies between assets and squeeze synergies out of them (and also it is a victim of its own success having been trading at premium valuations since '02).

So they are scrambling and maybe over-extending a little... taking a gamble on the exploration potential of some of these assets before they disclose additional ounces to the market, as in the case of Kinross' purchase of Underworld with less than 2 million ounces reported at the time of acquisition.

Kinross has received some flack for paying top dollar for some of these assets but it's too early to tell for certain whether it is overpaying. It is an expression of bullishness on the fundamentals of the gold market, and gold prices by the "commercials" - the insiders. It's true that gold company executives aren't the best forecasters of the price of their own product, comparatively speaking, but they are bullish when most are cautious.

We expect these trends to continue, in light of our gold price outlook, and all of our junior picks are made with the view to their attractiveness as potential takeover targets. We continue to scour the earth for good quality world class assets that are being developed by a promising junior somewhere. We've got our eye on a few and will almost certainly have one or two new junior stock selections in the month of October (for full subscribers).

We also intend to update all our prior stock selections in a special update in the coming days.



Expatriation of Ass & Assets

by Jeff Berwick

"Because you can't fight city hall, but you can leave town!"

The timing is excellent for a feature special report on Mexico. The country just finished its 200th anniversary of La Revolucion and Mexico has been a regular in the news, mostly for all the wrong reasons - drug trafficking and the swine flu panic of 2009.

I am writing this report from Acapulco in the very southwest of Mexico, a place where I have considered "home" for the last few years and therefore have some good inside insights into this very misunderstood country. Suffice it to say that if your only knowledge of Mexico comes from the western mass media, you don't know Mexico.

I spent all of 2004 traveling Mexico on my sailing catamaran from Ensenada, near San Diego, all the way down the Baja to Cabo San Lucas, then across the Sea of Cortez to Mazatlan, Puerto Vallarta, Barra de Navidad, Ixtapa & Zihuatenejo, Acapulco, Puerto Escondido and Huatulco. Since I've also ventured inland into Mexico City, Monterrey, Guadalajara and across via airplane to Cancun.

In the following report I will outline why I believe Mexico is the safest country in North America and why I think it should be a destination high on the list for many as a place to reside as a tourist or as a resident - becoming a citizen to get a second passport is less of interest to us although it may make sense to some people and we outline the process below.

Lifestyle

I find it to be of the utmost in paradoxes between reality and what most people think is reality here in Mexico. I currently

live in a place that I consider to be very close to paradise - Acapulco, Mexico. Yet, upon telling someone I live in Acapulco their first question, almost invariably, is, "is it safe?"

To give you somewhat of a picture of what my lifestyle is like here, I normally awaken in my 29th story apartment (which is so cheap you won't believe it - more on that below) with a full view of Acapulco Bay (one of the most beautiful bays in the world - only beaten by Rio de Janeiro, in my opinion). I pour some black or green tea and check some email and news for the day. I then do some power yoga for 25 minutes on my balcony. I hear nothing but the waves lapping below and the sky is pure blue on 97% of the days in Acapulco.

After yoga I head down to the pool and/or beach which is located directly below and I do some sprint laps. The sun is almost always beating down and the rush from the exercise and the vitamin D (sunscreens have been shown to cause skin cancer rather than preventing it for many reasons including the fact they block vitamin D production) always makes me feel incredible - the views on the beach also can be very inspiring as per the photo to the right (note: we've had an influx of female subscribers of late and I want to let the female subscribers know I will endeavour to find some good photos of local men in future expatriation editions in the future).

I then usually wander over to the man who sells fresh fruits and I get a fresh mango and fresh coco juice (one of the healthiest juices on the planet), for 50 pesos (\$3.50 USD) as we chit-chat about the vagaries of the day.

After that I usually head up to my apartment where my maid is finishing cleaning the entire apartment. Maid service is daily and included in my condo fees which are, by American standards, cheap.

Later in the day I usually head to one of numerous high-tech, fully equipped gyms (at less than \$1/day) and sometimes venture out in the evening with friends to a restaurant or nightspot. A nice local dinner generally will cost around \$10. A glass of house wine or a bottle of beer is usually around \$1-\$4. You can spend more, of course, at some of the world class luxury restaurants in Acapulco such as Becco al Mare but for those who want nice meals for cheap, there is a neverending supply, from Napoli and Forza Italian, both owned by Italians to numerous sushi, steak and of course, Mexican restaurants.



Another Tought Day on the Beach in Acapulco
(click to enlarge)

When I am out in the evening I've never seen so much as a fistfight. Everyone is happy, smiling and very social. The culture, here, is very polite and reserved. Upon meeting a girl who you know or are just meeting it is standard to give them a kiss on the cheek and to say, "Buenas Noches" (good evening).

In nearly 3 years in Acapulco I have never seen any crime, whatsoever. Of course, I live in the tourist area, which is safer than in the outlying areas, but even still, if you look at the crime rates Mexico is much safer than the US (more on that below).

But from a pure cost perspective, while Mexico is not as cheap as places like Thailand or Argentina, you can definitely live a very nice lifestyle for very cheap.

Costs

Some people don't realize it but Mexico is a huge country. It is only because it is situated beside Canada and the US that some may think it is a smaller place, but after years of traveling through Mexico there are still dozens of spots I have yet to see including Taxco, Puebla, Veracruz, Playa del Carmen and much more. Another thing foreigners don't realize is that Mexico is very diverse. Every area has its own unique accents, style and culture. Acapulquenos are very relaxed and friendly. People from Monterrey are usually super trendy, hip, artist types - usually they play in a rock band and have dozens of piercings and tattoos. People in Guadalajara are ultra-refined. They tend to be more involved in high-level business, enjoy opera and other cultural events and can be found most evenings as some of the most chic bars and restaurants in the world.

Foreigners usually gravitate to places where other foreigners are including Puerto Vallarta, Mazatlan, Cabo and Cancun. But these places are much more expensive due to the influx of foreign investment - and have much less of a style/vibe. These place feel more like the USA than Mexico.

Acapulco, on the other hand, is one of the coolest cities in the world with an amazing culture dating back to Spanish galleons conducting trade routes from Acapulco to Manila Philippines 450 years ago which still have many remnants of that culture.

In Acapulco you can find beachfront, centrally located, fully furnished with new modern furnishings fully-titled condos for under \$60,000 USD. Property tax is almost non-existent at around \$150 USD/year. In fact, being the entrepreneur that I am I saw the potential of this place and began a company renovating and selling condos here under the trade name AcaCondos (<http://acacondos.com>). I can then rent out those units in my boutique hotel concept (<http://LTGPS.com>) whenever the owners (many of whom only spend 1-2 months per year here) aren't using them at very good rates of rental income.

I buy most of my groceries for very cheap from the mercados (farmer's markets). All the chicken, beef and eggs are all grown on local farms with very little pesticides and certainly no antibiotics. The vegetables and fruits are ultra fresh and very cheap as well.

In reality, if you wanted to be very frugal, you could easily live here for under \$50/day including your condo maintenance fees, property tax, food, internet and Canadian/US Satellite TV which is available this far south from Canada's Shaw Direct in HDTV.

Safety

In my 3 years here I have never witnessed any crime whatsoever. Not to say that there aren't some issues with the failed US led war on drugs which is causing a lot of problems in Mexico. But 99% of all these problems are between the rival drug gangs, of which the police are one of them. They fight amongst themselves for lucrative trade routes. It is very rare when any innocent civilians get caught in the cross fire.

But even with this drug war the amount of homicides in Mexico is way lower than in the US.

AT LEAST 52 SHOT, 7 DEAD OVER WEEKEND

I hear quite often from Americans asking about the safety of Mexico. My reply to them is always the same: I should be asking you about the safety in the US! The headline, above, is from an article in June from Chicago (http://www.huffingtonpost.com/2010/06/21/chicago-violence-at-least_n_619259.html). In fact, nearly every weekend, 40 people are shot in Chicago.

And Chicago is better than many other US cities. Here is a listing in descending order of murder rates (per 100,000 people) for major cities in 2008:

Detroit 37.4

Baltimore 36.9

Washington DC 31.4

Philadelphia 23.0

Chicago 18.0

Mexico City 8.1

I couldn't find a reputable source for a murder rate for Acapulco but I can confidently state this: Inside of Acapulco (not including surrounding areas where there are some problems from time to time – anything within 200 miles of Acapulco is always reported in foreign news as occurring IN Acapulco) the rate would likely be very low. And inside the tourist areas of Acapulco that rate would be even lower. It is a rarity when even so much as a fight happens in the tourist zone. The people of Acapulco realize the importance of tourism to the economy here and it is just simply not allowed in this area.

Put simply, if safety is a concern, and you live in the US, you should move to Acapulco!

As someone who lived for ten years in Vancouver, Canada and two years in Los Angeles, I can say that I saw exponentially more crime and violent situations in both Vancouver and LA than in the main tourist destinations of Mexico. I can't remember how many times I left a bar in Vancouver with my head down as rival drug gangs shot it out, especially during the [2009 Vancouver gang war](#). And, suffice it to say, there weren't many neighborhoods in LA I felt very comfortable walking around once the sun went down.

Where in Mexico?

There are plenty of places in Mexico to choose from. From the beautiful and bustling port of Acapulco, to the small, quaint Ajijic on Lake Chapala near Guadalajara to Huatulco, Puerto Vallarta, Mazatlan, Playa del Carmen and numerous others, the options are nearly endless. It is really just a matter of taste. For me, being a bit of a city boy who also enjoys living near the beach, Acapulco was the perfect choice as it is a fairly large city while still having the feel or a tropical resort town.

If you like peace and quiet more than luxurious fine dining and nightlife then the best locations are Huatulco, in Oaxaca, in the very south of Mexico - I call it "the coolest" small town in the world. I liked it so much that I was going to only stay there overnight on my sailing catamaran and I ended up staying 3 months. Another nice, quiet place that has attracted a lot of expats is Ajijic on Lake Chapala. Fellow newsletter writer, American Dudley Baker Pierce, writer of preciousmetalswarrants.com happily lives there.

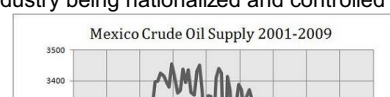
Puerto Vallarta is another beautiful locale but it is becoming a bit pricey as many expats have discovered it over the last two decades.

In fact, if you believe Mexico may be a place you'd like to put down some roots my recommendation would be to tour through Mexico for a few months and try out many different locales until you find one that suits you. Bus service throughout Mexico is first class, safe, cheap and easy.

The Future

By no means is Mexico perfect. There are many issues here. The government and the police are mostly corrupt - but that is the case in most places, not least of which is the US. However, unlike in the US, the police here are more of a nuisance than a real problem. They really don't take their jobs seriously like they do in the US. They are mostly looking to get 100 or 200 Pesos (\$8-16) off you if they find you going through a red light or making a u-turn where you are not supposed to.

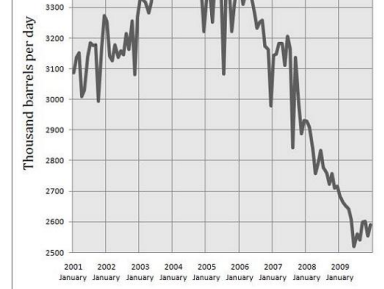
The biggest looming problem in Mexico is that due to the Mexican petroleum industry being nationalized and controlled by a government agency, Pemex, Mexican oil reserves have been trending lower and lower as incompetent bureaucrats cannot compete with the free market in terms of finding and exploiting oil reserves - as well as funneling off



any profits from Pemex to all manners of political boondoggles and outright theft.

In 2008, Mexican Energy Secretary Georgina Kessel warned the Mexican Congress that if legislators did not approve reforms within the oil sector, the country would suffer a "severe energy crisis" within a decade. That's probably an understatement.

Mexico's oil production is rapidly declining. The Cantarell oil field, one of the world's largest, is responsible for almost two-thirds of Mexico's production. In 2004, it brought up 2.1 million barrels a day; today it produces only half that. Unless new sources are found, Mexico -- up until recently the second-largest supplier to the United States -- will become a net oil importer by the year 2018. So, as you can see, this has huge implications for both Mexico and the United States who would lose yet another major oil supplier.



Mexico Oil Supply

It's an even bigger deal for the Mexican government, for whom oil represents the single largest amount of revenue for the federal government -- about 40 percent.

What this could mean is a collapse of the Mexican government or yet another collapse in the Peso. However, that's not necessarily a bad thing. Every country would be much better off if its government collapsed and its fiat currency were to become worthless. Why? Because then the free market would have an opportunity to take hold and create real wealth and prosperity.

And besides, if the Peso were to collapse it would hardly be chaos in Mexico. In fact, your average Mexican would just shrug his shoulders and say, "Again?"

It is for this reason that we believe Mexico is a safer place to live right now and we also think it is a much better place than the US to sit out the coming US dollar based financial system collapse.

In fact, if the people of Mexico were smart they would legalize all drugs for purchase, consumption and sale (one interesting item that was barely reported in the US media is that [all drugs are legal in Mexico](#) for consumption currently - just not for sale and trafficking). This change alone would end all the violence between the drug gangs and tourists would flock in even greater amounts to Mexico. Then if they were to back the Mexican Peso with silver, an obvious choice being as Mexico is the 2nd largest silver producer in the world after Peru, investment capital would flood into the country.

These two small changes alone would result in Mexico being, very quickly, one of the richest and safest places on Earth. Don't think it can happen?

There is already a large movement in progress to legalize drugs for sale as per this article entitled, "[Weary of Drug War, Mexico debates Legalization](#)".

And Hugo Price, a very smart Mexican, has been [lobbying for the return of the Peso to the silver standard](#).

If these two movements were undertaken, Mexico would be one of the richest countries in the world within years.

Tourism/Residency/Citizenship

If Mexico were to legalize the sale of all drugs and back the Peso with silver we'd be the first in line to apply for citizenship. However, that currently not being the case we believe the best way to utilize Mexico is to live here as a tourist or as a resident.

TOURISM

Most nationals receive a 6 month "tourist visa" on arrival in Mexico and we find that to be a sufficient amount of time to not even bother applying for residency. We personally always have some reason or another (business, vacation etc) to leave the country every six months, so why "enter the system" and make yourself known to the government as a potential source of taxes. As well, even if you overstay, it usually only results in you having to pay some clerk in some humid, dank backoffice a few hundred Pesos. Or, even better, you could fly into the Tijuana airport and walk across the border into the US on a Friday or Saturday night with the tens of thousands of American kids who had gone to Tijuana for a night of fun. They don't even check passports on exiting the country through that border as there is just too many drunk, young teenagers to bother processing.

RESIDENCY

However, if you wish to live in Mexico and don't want the bother of leaving every six months, applying for what is called an "FM-3" is simple enough. You basically just need to show proof that you have sufficient income (around \$1,000/month) and fill out a bunch of forms and you can get your FM-3 residency.

CITIZENSHIP

It isn't very easy at all to get a Mexican passport. You would need to have lived here for many years and usually have to have some relation (marriage) to a national. But a Mexican passport is not a great travel document so we would advise those seeking a 2nd passport to go to much easier locations such as the Dominican Republic.

Conclusion

Other than a few cities, such as the city of Juarez on the American border, the great majority of Mexico is much safer

than the USA. As well, Mexico is eminently more free than the US. As example, check out CryptoHippie's annual Police State rankings by country (<https://secure.cryptohippie.com/pubs/EPS-2010.pdf>). Out of 51 countries, Mexico ranks as #47 in freedom (as one of the freest) from the electronic police state. The USA, by the way, ranks #5 only behind North Korea, China, Belarus and Russia.

In other words, Mexico is, by far, the safest and most free country in North America, despite what Canadian and American news tries to sell you.



Perspectives from the Original Silver Trader

By Dr. Tom O'Brien

Editor's Note: We include these casually written statements from Dr. Tom O'Brien each month as an interesting way to get a perspective from one of the most central figures in the last gold/silver bull market

Greetings TDV'ers!

If there is anything that I can contribute from the "Early Golden Days" of the sixties, it is to point out the audacity of Merrill Lynch researchers that believed you could quantify emotions and psychological market factors.

That human arrogance cost them millions in real time trading. The same parallels are being exhibited today with middle management of the Big Three banking cartels. All their trading departments are run by the same cutouts of Ivy League school MBA's with degrees in computer sciences or geometric engineering with no real feeling for the market forces or any training/education in global monetary policy.

What they do not understand is that higher gold & silver prices will accelerate demand rather than diminish the sense of urgency. Based on my 43 years of observation, emotions and mass psychology play a larger role than most observers attribute. When the Masses panic - and they will very soon - no amount of force or price increases will assuage that hunger. Fear is stronger than greed!

Although it should be pointed out that this is one of the only bull markets that is driven by both fear and greed. Fear (rightly so) of collapse of the current financial system and greed by those who want to profit handsomely from it.

My friends, strap yourself in for the wildest ride of your short Life!

Regards,

Dr. Tom

Dr. Tom



Dispatch From Within The Belly of the Beast by Private Parts

Editor's Note: We include these casual comments from a former US NCO (Non-Commissioned Officer) currently working as a contractor of the US Government on the ground in Afghanistan as an eye-opening look into what American taxpayer dollars are being used for in the "War on Terror"

Greetings from beautiful Kabul!

(If you consider endless piles of trash, mud and toothless 30-year old men who look like they're 60 to be "beautiful")

Well, September has been a great month for our partner in crime President Karzai. After the locals realized the country's largest bank had been giving illegal loans to politically-connected shareholders to speculate on Dubai real estate and cover losses on their businesses the run on Kabul Bank got so bad that the Central Bank had to take over.

And no surprise, one of Kabul Bank's largest shareholders is Karzai's brother, while another shareholder, one who received over \$60 million in preferential loans, is the Afghan Vice President's brother.

But that was just a warm-up. Karzai then oversaw another round of bogus, farcical elections, this time for the parliament's lower house, ironically called "House of the People" in Pashto. I guess if you consider Karzai's cronies, drug traffickers, militia leaders and former Taliban associates to be "of the people". But I digress.

And sure enough, it only took about a day or two until we had reports of widespread fraud. What else would you expect from an administration that stuffed the ballot boxes last year to the tune of nearly 1 million fraudulent votes?! But aside from the countless fake registration cards that were accepted last Saturday, my personal favorites were the reports of parents bringing their kids to the polling stations and the kids being allowed to vote! Oh, and that famous "permanent" ink, that washed off in less than 30 seconds of washing/rubbing, allowing some people to vote numerous times.

Don't get me wrong. I have no qualms at all about scamming a paycheck from Uncle Sam over here - as you can plainly see. I believe almost all the actions by my government are incorrect, fraudulent, lies or wastes of money but if they want to pay me a large six figure paycheck to sit around and be a part of it, I'll take the money - I'm no idealogue.

It's just amazing to me though that aside from Rep. Ron Paul (TX) no American politician seems to understand the disastrous unintended consequences and crushing cost of American troop presence overseas, not just in Afghanistan and Iraq, but everywhere. But then again, considering how weak the American job market is, maybe with each passing month it just becomes more appealing to keep flushing money down these nation-building black holes to keep the troops, civil servants and contractors busy (and paid). If they didn't, it would certainly be interesting to see several hundred thousand more battle-hardened vets flooding back into the US as the newly unemployed.

Regards,

Pvt. Parts

Pvt. Parts



Survival & Health News & Notes

by Jeff Berwick

In past issues we have spent a lot of time on the important topic of health but survival techniques are also of great importance. After all, you may be in perfect shape and have 6 pack abs due to your low body fat, but if an event were to occur wherein the food delivery system were to be obstructed for weeks or months you would find yourself in much worse shape than your more portly neighbor who may be carrying months worth of usable energy around his midsection.

When the topic of survival preparation arises it seems everyone has a different opinion. Some people are the types who have a bomb shelter and years worth of non-perishable food, water, armaments and other provisions. Yet others may look at these people as being paranoid and don't even have so much as 1 or 2 days worth of food or water on hand, figuring the grocery store and the electrical/water system will never fail.

But there is nothing paranoid about survival preparation. In fact, believing that you are and will be completely safe from any national catastrophe, or that your local government will protect you during a crisis is insanity. Just ask the people in Pakistan how much their government is helping them through their ongoing flood crisis. In light of FEMA's performance during Hurricane Katrina is further proof of the insanity of leaving protection of your welfare to others, especially from government organizations that have little to no vested interest in your well-being.

No matter what your beliefs on survival preparation, here are the facts. Even disregarding TDV's expected global financial collapse there are numerous natural events which could see you without food, power, water and communications for days, weeks, months and possibly even years. And these naturally occurring events are highly probable to occur. Not just a 1 in 1000 shot. Some of these events will occur in our lifetime barring some extreme luck.

Solar Flares/EMPs

While the mainstream media cabals focus on mostly mythical risks such as terrorism, global warming and swine flu they rarely, if ever, mention the events which are most likely and most dangerous. Of these, a solar superstorm or an electromagnetic pulse (EMP) are high on the list of being both highly likely and possibly completely devastating.

An EMP is a pulse set off by detonation of a nuclear device at a high altitude. You can read more on it and the potential catastrophic damage it would inflict on the power system and electrical devices here:
http://en.wikipedia.org/wiki/Electromagnetic_pulse.

But the much higher probability event is what is known as a solar superstorm. Solar storms hit the earth approximately every 11 years and usually does some serious damage to whichever part of the earth is hit directly. In March, 1989 a geomagnetic storm caused a Hydro-Québec power failure which left 6 million people in the Canadian province of Quebec without power for 9 or more hours. A similar event happened in South Africa during the last solar cycle.

But those are small solar storms. It is said that a "century class" or "solar superstorm" can occur every few hundred years. And the last one was from August 28 until September 2, 1859, when numerous sunspots and solar flares were observed on the sun, the largest flare occurring on September 1. A massive coronal mass ejection (CME) headed directly at Earth due to the solar flare and made it within eighteen hours — a trip that normally takes three to four days. On September 1 – 2, the largest recorded geomagnetic storm occurred. The horizontal intensity of geomagnetic field was reduced by 1600 nT as recorded by the Colaba observatory near Bombay, India. Telegraph wires in both the United States and Europe experienced induced emf, in some cases even shocking telegraph operators and causing fires.

However, the world has changed a lot since 1859. In 1859 telegraph wires were one of the only electrical devices in existence. Now our civilized world cannot even exist without electricity. Water, sewage, travel, communication and food delivery systems are all computerized. If the same size solar storm as hit in 1859 and is scheduled to hit again at anytime, were to hit now we would be in serious difficulty and could cause weeks if not months or years of electrical downtime during which food and water delivery systems could fail completely causing mass deaths.

Preparation

Other natural events including volcanoes, earthquakes, fires, food shortages and tsunamis should also be reasons to be well prepared. And that is before we get to our favorite topic, the collapse of the US Dollar and the global financial system which will, in certain areas, likely cause massive short term chaos and shortages of food and supplies.

And so, given all that, how can you not have at least a few months worth of non-perishable food, water and supplies stored in your home? To not do this is irresponsible. By preparing now you can be one less person down at the riots at the grocery store or government supply drop zone.

Of course there are varying levels of preparation. Those who want to ensure the highest level of safety would likely want to move to a remote location far from the crisis areas which are likely to include the US and Europe. Moving to a small farm in Argentina or New Zealand strikes us as being one of the most prudent ways to be ready for almost any eventuality.

However, you may be like us, and aren't willing to go live in the middle of nowhere and raise chickens and grow your own vegetables just to ensure your safety. After all, if the point of this whole exercise is staying alive but you are completely unhappy living a rural lifestyle far from any entertainment or social life then what is the point?

That's where living in an urban environment yet still being prepared is an option. There are only a few cities on earth that I wouldn't recommend staying in during the financial collapse. These cities would include Los Angeles, New York and London. Chances are that these cities will be the epicenter of a lot of strife in the event of a complete financial system collapse. For those that live in those cities and don't want to leave until the writing is on the wall I would advise you have an emergency bag ready at all times with basic supplies, food and armaments to last you a few days. Also having a motorcycle always full of gas is an excellent way to get out of the city when the highway is a 50 mile traffic jam of people fleeing the city.

Food

It is crucial to remember that we've been living in a "just in time" food delivery system for only a few decades. Sure, it has worked great for the last few generations as the obesity epidemic proves. But there are literally dozens of potential reasons why this system could slow or stop for a period of time. Even during the first stage of the financial crisis in 2008 much of the food delivery network stopped for a number of days as food retailers could not attain letters of credit from their banks to give to the shipment companies to guarantee payment for the food upon arrival. This will happen again and the next time it may be weeks or months before a new monetary system is put into place to facilitate trade.

It is a bare-minimum to have no less than one month worth of non-perishable food available for you and your family.

While I live and breathe all of the health information and advice I provide here I admit that when it comes to survival preparedness I am somewhat less vigilant. Everyone has their own personal psychological aberrations and one area in which I know I am weak is in preparedness. I am prepared very well financially but I am probably not as prepared as I could be for survival.

That said, I do have a minimum of 1-2 months of food in my apartment. I make an effort to buy a couple extra bags of rice or can of beans or other like items everytime I go grocery shopping. Once I reach a certain amount then I try to use these items in day-to-day life and just restock on an ongoing basis to ensure that none of it spoils. I also have a minimum of 40 liters of fresh water in my apartment - which I realize likely is much too little.

But if I wanted to be very prepared I would likely order something like this [gourmet 1 year supply of dehydrated foods from BePrepared.com](#).

My own personal reason why I am not too extreme on food storage is twofold. For one, I travel a lot and I figure that I am just as likely to be out of town during some extreme event than here in Acapulco so why bother. And secondly, I am a fairly young, healthy, strong male with fighting and self defense training and even basic training in the Canadian army. So, I figure, if things got bad, I am more the type of person people should be afraid of rather than me being a target. Especially since I am armed.

Supplies & Armaments

I've never been a big "gun guy". But I have purchased a firearm that I keep nearby in case of emergencies. Some people really take armaments to extremes, literally having a huge arsenal. This may make some sense, depending on where you live and the kind of people who live around you (if they are all heavily armed then you may want to be as well!). But upon reading a lot of survival manuals, books and blogs, most societal breakdown survival experts basically state that if you get into a situation where you are in a shoot out it is pretty much a "who shoots first wins" type scenario and if you are in a situation where you are trying to fend off dozens of armed men then you are likely done-for no matter how armed you are. In this case, it is just best to keep a very low profile. Don't go bragging around that you are well supplied during a time when others are having trouble finding food!

As far as other supplies, all it takes is your power to go out for a few hours or your water to get cut for a day and you soon realize all the things you wish you had supplied. Little things like toilet paper, toothpaste, soap and all the other items of day-to-day life can make life so much more livable and enjoyable than living without all of those basic necessities. When I buy toothpaste I don't buy one, I buy 5. I then use 2 or 3 before again buying another 5. I realize all of the things I do aren't "optimal". But, as I stated above, I'm not trying to live out a 2 year end-of-world-as-we-know-it scenario. If that occurs I might rather be dead anyway than wasting my life away in a hut eating dehydrated food and sitting in the dark. All I am planning for is a 1-2 month, and possibly longer, stoppage of food, water and power delivery. I am hoping my strength, intelligence and my hoard of gold and silver coins will get me past anything I need to accomplish after my few months of food and water run out.

One item I don't have to personally worry about as much here in Acapulco, but many of our subscribers need to keep in mind is the weather.

A loss of the power grid in the winter in northern areas could result in massive devastation. It doesn't take very long in cold weather before blankets become insufficient. Within hours or days many people would be burning their furniture for heat and much longer than that and there would be mass deaths, possibly upwards of 90% in metropolitan regions

without much wood for burning. And so, for those who live in areas with cold winters a generator, heater and plenty of fuel is a necessity.

Medications

If you have any life-threatening medical problems that require medication this is obviously one of the most important things for you to stock up on. However, remember, the great majority of health problems are caused by poor diet or lack of exercise so don't hesitate to begin your training program and improving your diet. There may be a few month period where you won't have any access to doctors or hospitals so it is best to get in the best possible shape now so that you lower the chances of having any serious medical problems at the worst possible moment.



Q&A: Ask The Dollar Vigilante

Q: Hyperinflation makes it sound like the price of everything is going higher, but they're not. If everything was hyperinflating, natural gas wouldn't be \$4, 70% down from the peak. Prices of some things in demand are hyperinflating (gold, food); meanwhile prices of things in oversupply are not (natural gas, computers, new cars, stock certificates, etc.). What about the idea that some prices in the collapse will hyperinflate while others will stay stable or even deflate? - Joel S.

A: First, we never said we are currently in hyperinflation. We are most certainly not currently in hyperinflation. The money supply, by Austrian money supply measures is expanding at a rapid clip (10%+) at the moment but in order for it to be in hyperinflation it would have to be expanding by much more (100%+ per annum).

As for some prices declining and some prices increasing during a hyperinflation, what will happen is that ALL prices will increase... A Big Mac, for example, may be \$1,000 but you are correct that in REAL terms some things will go up much more than others and some things will go down and in REAL terms (in terms of gold, not in terms of a fiat currency) some prices may go down substantially. For example, if you hold all your assets in gold bullion you may find that, in real terms (gold), nothing goes up in price. The gold will remain the same value as other items but some items may go down in price dramatically compared to gold. These items may include retail goods and other non-essential items as the demand for them may go down as more and more people are out of work and losing their life savings (which they held in fiat currencies and in bankrupt pensions etc).

Please email any questions or comments you have at any time to TDV@dollarvigilante.com and every month we will endeavor to answer them either publicly or privately.



Conclusion & Items to Watch in Coming Weeks

Keep your eye on the credit default swaps for the European PIIGS. All are at or near all-time highs which means the markets believe there is more risk now than ever before in the sovereign debt of those countries. We'll be surprised if we make it through October without some big news coming out



End Quote

"A weak government is the corollary of a strong people" -

Bracken Lee in the foreward to Chodorov's book on the income tax