

A Personal Investment Strategy For These Turbulent Times

This presentation is solely for educational purposes. This is not an investment advisory. No one should invest without consulting a certified financial planner or a qualified investment professional.

With that understanding:

Let us now examine a possible, Personal Investment Strategy For These Unpredictable, Turbulent Times.

I prepared this presentation in advance, using the closing prices of gold, and various securities as of April 3rd, 2009, and compared their values with the closing prices two years ago on April 13, 2007. The securities selected and the comparison with their values two years ago was arbitrary, intended only to demonstrate the use of gold and paper gold as a possible safe haven. A rationale for investing in gold is not to make money, but to have money. Gold is not my only perspective. However, it may be worthwhile to consider gold in these turbulent times.

Warren Buffet said “The economy has fallen off a cliff”

George Soros, examining the Fed’s response with a massive injection of liquidity and expansion of the monetary base said:

“Eventually, Ben Bernanke & Co. will face the challenge of having to remove that liquidity from the system. That's a big and difficult task and probably the authorities will not be able to do it well,”
“That's the fear that drives people into gold.”

Soros is telling us that when fear of deflation turns into fear of inflation the fearful will turn to gold

Everyday we read of the enormous amount of dollars required to rescue banks, insurance companies, Fannie Mae, Freddie Mac, GM, Chrysler, Auto Industry Suppliers and Companies too big to fail, The cost of the war in Iraq, combating terrorism in Pakistan and Afghanistan, servicing the national debt, multi billion dollar cost overruns in military contracts, the cost of imported foreign oil, the proposed economic stimulus programs, and the present and future estimated dollar costs of Medicaid, Medicare, and Social Security.

We are confronted with what might be termed an economic catastrophe. The National Debt is sky rocketing, posing the possible threat of stagflation, inflation, or hyperinflation.

How is the Federal government going to fund these enormous, mega trillion dollar debts? SIMPLE. It's called Quantitative Easing. That wonderful euphemism politicians and economists use for printing paper money.

The Federal Reserve Board has and will continue to monetize the government's debt. The Fed has monetized \$1 trillion so far. The Fed announced the purchase of \$700 billion in agency bonds (which the Chinese hold in great quantity) and \$300 billion in treasuries. In essence the Fed buys these bonds and pays for it with paper Federal Reserve Notes. What are Federal Reserve Notes? Open your wallet and take out a dollar bill of any denomination. Read the legend above the engraved presidential portrait. It states: Federal Reserve Note.

On November 21, 2002, Before he became head of the Federal Reserve, then Federal Reserve Governor Ben Bernanke, in a speech before the National Economists Club in Washington, DC; titled “Deflation: Making Sure “It” Doesn’t Happen Here; Benanke said: “Like Gold, US Dollars have a value only to the extent they are strictly limited in supply. (On November 21st, 2002, the day of Benanke’s speech, spot gold closed at \$318. On April 3, 2009, spot gold closed at \$897 an increase of \$582, for a gain of 182 percent.

CONTINUING WITH BERNANKE’S SPEECH:

“But”, he said, “the US Government has a technology called a printing press (or, today, its electronic equivalent), that allows it to produce as many dollars as it wishes at essentially no cost.”

No wonder China is worried about their estimated \$1 Trillion dollars in US debt, the worlds largest such holding. The Chinese Premier said “We have lent a huge amount of money to the U.S. Of course we are concerned about the safety of our assets.” “To be honest,” he said, “I am definitely a little worried.” Further, China has called for the eventual creation of a new international currency reserve to replace the dollar. Are the Chinese saying the dollar is no longer as good as gold?

The monetization movement is not only domestic. The British call their Treasuries “Gilts”. They had a Gilt auction last month, and the auction failed. There were not enough buyers to take up the issues being sold. The British government was forced to step in to pick up the slack. Monetization of the debt is self-perpetuating once started, and is very inflationary.

Let us turn to George Bernard Shaw's oft quoted maxim on Gold:

“The most important thing about money is to maintain its stability.. You have to choose (as a voter) between the natural stability of Gold and the natural stability of the honesty and intelligence of the members of the Government. And, with all due respect to these gentlemen, I advise you, as long the Capitalist system lasts, to vote for gold.”

On Tuesday, April 7th, an article in the New York Times described the G-20 meeting's pledge to contribute \$1 trillion to be pumped into the world's financial bloodstream as based on “squishy mathematics”, some of which is doubled counted, and others in a synthetic virtual currency, that is not real money, known as special drawing rights.

Is Gold a Possible Safe Haven in this Economic Maelstrom?
For thousands of years, Gold has been prized as a medium of exchange and as a secure store of value in troubled times.
Governments can print money, They can't print gold.

If one believes gold is the safe haven in unpredictable, turbulent times, possible investments might be gold coins and gold bullion.

On April 3rd, 2009,

One ounce gold American Eagles were quoted at \$950.82.

One ounce gold Krugerands were \$941.85.

Gold Bullion bars were \$897 an ounce, plus a dealer's premium.

Investors buying gold coins and gold bullion must consider the costs of storage and security. Another strong consideration is the possible confiscation of gold coins and gold bullion by the Federal Government.

In 1933 FDR's Presidential Executive Order made it illegal to own gold coins and gold bullion. The penalties were a fine of \$10,000 and/or 10 years imprisonment. The official gold price was \$20.67 per ounce. EIGHT MONTHS later, the "Gold Reserve Act of 1934, revalued gold from \$20.67 per ounce to \$35 per ounce.

In effect, the US dollar was devalued. Can gold confiscation happen again? I don't know, but the enabling legislation passed by Congress on March 5th, 1933, was titled, "An Act To Provide Relief In The Existing National Emergency In Banking, And For Other Purposes.

Let us Move On To Investing in Paper Gold, namely gold stocks, and Gold ETFs. Was gold a safe haven in the two year period from April 13, 2007, to April 3, 2009?

The Dow Jones Industrial Average declined 64% from April 13, 2007 to April 3, 2009, falling from 12,612.13 to 8,017.59

In this same two year period:

Spot Gold gained.....32% ,	.....	\$680	to	\$897
GLD, a gold ETF, gained 30%,	.....	67.84	to	87.61
GG, Goldcorp gained 18%.....	.....	26.54	to	31.12
RGLD, Royal Gold gained 44%,	.....	30.18	to	43.42
NEM, Newmont Mining declined 2%	...	44.61	to	43.89
ABX, Barrick Gold gained 3%,	.....	29.34	to	30.37
GDX, Market Vectors Gold Miners ETF,	declined 18%	42.35	to	34.70

While Spot Gold appreciated 32% in this two year period the so called masters of the universe on Wall Street lost hundreds of billions of dollars for individual investors, institutions, pension funds, municipalities, bankrupted the country of Iceland, and created the current financial mess.

Most common stocks suffered losses averaging 50% or more
For example:

GE declined 69%	.....	35.38	to	10.94
BA declined 59%	.....	91.03	to	\$37.69
GD declined 45%	.....	76.72	to	\$42.66
LMT declined 31%	.....	96.24	to	67.31
CAT declined 52%	.....	66.79	to	32.15
MSFT declined 36%	.....	28.61	to	18.75
CHK declined 41%	.....	33.69	to	19.95
SLB declined 41%	.....	76.00	to	45.26
X-US Steel declined 77%	.....	105.57	to	25.87

And of course those wonderful folks collecting bonuses and retention pay:

C-CitiGroup declined 95% ..51.60 to 2.85
 BAC, declined 86%50.42 to 7.60
 GS, declined 43%206.50 to 119.40

But you know which security declined the most.
 AIG, down 98%, from 66.91 to 1.14

To be fair, we must recognize some relatively stable securities

IBM gained 7.7% from 94.93 to 102.22
 AAPL gained 29% from 90.24 to 115.99
 MCD gained 19% from 47.64 to 56.64
 XOM declined 9% from 77.41 to 70.40

Finally, some have been speculating that gold has had such a good run in the last few years that it is about topped out. The counter-argument is: with the Federal Reserve running the printing press at full speed and Europe heading into a deep recession, global currencies could be in trouble. And if currencies are in trouble, gold is historically a good bet.

Now we have the news that the mining group Anglo American has sold its remaining 11.3 percent stake in South Africa's AngloGold Ashanti gold mining company for around \$1.3 billion to Paulson & Co, the hedge fund run by John Paulson. You know, the guy who shorted subprime and made an unearthly fortune. John Paulson is not related to former Secretary of the Treasury, Henry Paulson,

Gold and gold mining stocks are traded on exchanges around the world, fluctuate in price, and at times are volatile.

Is gold a safe haven for these unpredictable, turbulent times, or is gold a barbaric relic?

I'll let you decide.

I'm reminded of what John Bogle, the founder of the Vanguard Group of Funds, was told when he first landed a job on Wall Street.

A veteran trader approached him and said, "Kid, I'll tell you all you need to know about Wall Street, 'Nobody knows nothing'"

I'll conclude with what Thomas Jefferson said in 1802

"I believe that banking institutions are more dangerous to our liberties than standing armies. If the American people ever allow private banks to control the issue of their currency, first by inflation, then by deflation, the banks and corporations that will grow up around the banks will deprive the people of all property until their children wake-up homeless on the continent their fathers conquered."