THE GREAT GOLD & SILVER PLUNGE OF 2013

END OF THE BULL MARKET?

Abstract: After the April 2013 gold price, we have to ask whether the gold and silver bull market is dead. Best to approach this question from both technical and fundamental viewpoints.

Technically, gold's 31.3% fall, as measured from the 2011 high, is not uncommon even in bull markets. After the stock market's October 1987 crash of 22.65 in one day (down 36% from its high) stocks recovered and kept on rising for another twelve years. From 1974 through 1976, gold lost 47% but remained in a bull market and rose over eight times from its 1976 low.

Fundamentally, monetary demand drives silver & gold bull markets, and inflation gives birth to monetary demand. Therefore, the effect ("gold & silver bull market") will continue until the cause ("inflation") is removed.

Chance of inflation disappearing is way smaller than chance of your winning the Power Ball lottery. Inflation is institutionalized at every level, central bank, banking, government spending, economic dependence on that spending, debt levels, substitution of debt for production, and government market manipulation. Remove inflation and it will be the end of the world as the American economy knows it. Too many interests profit, or believe they profit, from inflation, so the inflation will only stop when the entire system hits the wall.

The silver & gold bull market has not ended.

On Friday, 12 April 2013, gold crashed.

Gold smashed through support around $1,530 that had held since September 2011. It plunged $63.30 (3.94%) to close at $1,501 and on Monday cascaded another $140.40 (8.75%) to close at $1,360.60. At one point it touched $1,321, down $243.3 from its close the Thursday before. In two days it lost a total 12.69%, the worst loss since gold peaked in 1980. From the August 2011 high close at $1888.70 to the 15 April 2013 low close at $1360.60, gold lost 28%.

Lo, the same voices that had done their worst to break the gold market – Société Générale, Deutsche Bank, Goldman Sachs – and other Wise Ones piled on, chanting, "The Gold bull is dead! The gold bull is dead!"

Well, is it? And has it taken silver with it?

Let's view it from two perspectives, fundamental and technical. But first, look at Chart 1, "US $1.00 Paper valued in gold ounces." Bear in mind that what we are talking about is that little upturning teat at the right edge of that chart.

Whoa! Before we go any further, put this in the long context. Look at Chart 2, "Value of US$1.00 in gold ounces 4 Jan 1932 - 2 May 2013." This charts the dollar's value in gold from *before* Roosevelt's devaluation from 0.048375 troy ounces to the dollar. The long plateau shows the government controlled price at $35/oz or 0.02857 oz/dollar, then the cascade in the 1970s as gold rose into 1980. Chart 1 shows the years from 1996 till now, about the right quarter of this chart, that little nubbly tail to the right, all of it valued at less than 0.004 (4/1000) troy ounce.

Does this chart put into perspective the question, "Has gold's bull market ended?"

TECHNICAL: COMPARE OTHER CRASHES

From a technical perspective, even bull markets suffer sudden, violent drops, *and recover to rise to heights many times pre-crash highs*.

One of the worst was the Dow crash on 19 October 1987. In one day it dropped 508 points, 22.6%, down 36.1% from the August 1987 high. It took two years to recover, *i.e.*, to pass the peak before the crash.

However, the Dow continued to rise for another 12-1/4 years, until January 2000, rising to 6.74 times its 1987 low.

ATTACK IN 1974

The gold market attracted huge enthusiasm in the early 1970s, and the movement to "legalize" gold ownership finally won. The law provided that on 1 January 1975 gold would become legal.

In August 1971 Nixon had repudiated dollar gold convertibility. One suspects that the Nice Government Men in the US Treasury, trying to manage a world of newly floating currencies, were alarmed by the specter of a rising gold price, chief competition to the US dollar. Since the US Treasury (and several central banks) steadily held gold auctions in the following years, one's suspicion would be confirmed.

From a pre-legalization high on 30 December 1974 at $195.50, gold steadily declined for twenty months until on 30 August 1976 it reached $102.9, down 47.4%. (I remember that low quite well, because in August or September 1976 I was in the dentist's office, and I had taken the current *Inflation Survival Letter* with me. In those dark ages before the Internet, it was tough find to get a current gold quote, and every month *ISF* published that. I remember a conversation with the receptionist or the dentist in which I pointed to that gold price and said, "*That's* what I'd put my money into." I'm sure I didn't know "Sic 'em" from "Come here" about investing then, but I had studied enough to know that gold & silver were in a bull market. Soon as I scratched together some money in 1978, I started buying.)

AFTERMATH OF 1974-1976

From that August 1976 low, gold needed another 22.7 months, until 20 July 1978, to permanently climb above 1974's $195.50 high.

From that 30 August 1976 low at $102.90, gold rose 8.54 times to peak at $878.50 on 21 January 1980, about 41 months (three years, five months) later.

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From the beginning of the 1960-1980 bull market at $35/ounce, gold rose 5.59 times to $195.50 on 30 December 1974. Oddly enough, that's not too far from gold's rise from beginning its bull market in February 2001 at $252 to $1,888.70 in August 2011, up 7.49 times.

From the beginning of the 1960 – 1980 bull market at $35/ounce, gold rose to $878.50 on 21 January 1980, up 25.1 times.

THE 2006 CORRECTION

From a top at $719.80 on 11 May 2006, gold dropped to $562.30 on 14 June 2006, a 21.9% loss. Gold needed about 16 months, until September 2007, to climb above that 2006 high permanently.

THE 2008 CORRECTION AND FINANCIAL PANIC

On 18 March 2008 gold topped at $1003.20, then fell until 13 November 2008 when it stopped at $704.90, a 29.7% loss.

Very different from 2008 has been this 2011 – 2013 correction. Influenced by the Panic of 2008 that correction was and was short and sharp, lasting only from March to November, eight months. This one began in May 2011 for silver (24 months) and August 2011 for gold (20 months), and has been long and drawn out. Whereas earlier corrections in this bull market came to a bottom in one to eight months most, this one has taken gold twenty.

That in itself is no cause for alarm. Look at the 1974-1976 experience above.

REVERSAL FROM 2008

Reversal in 2008 took a long time. Silver bottomed first on 28 October at $8.79, then again on 13 November at $8.80 when gold finally bottomed. Gold needed about ten months to reach and stay above its $1,003.20 high. Silver waited 22 months to pass its previous high.

However, in that 2008 – 2011 recovery from a $705 low to $1,888.70 high gold rose to 2.7 times its low. In the same recovery, silver rose from its $8.80 low to a $48.584 high, 5.5 times its low. The rally lasted nearly three years.

CORRECTION 2011 – 2013

From its intraday high at $1,923.70 in August 2011 to its intraday low on 15 April 2013 at $1,312.00, gold lost 31.3%, about what it lost in the 2008 correction.

Is the gold bull market over? Not based on this correction.

However, there's more

PRICE & TIME

Gold's rise from $252 in February 2001 has not fulfilled bull market targets in time or price. Now I rapidly admit that no rule exists for how far and fast a bull market rises. It might double, it might grow twelve fold. However, the last gold bull market lasted from 1960 (or 1963, depending on your viewpoint) and ran until 1980, twenty (or 17) years. So far, this bull market has run only twelve years. Sure that's possibly long enough, but not very likely when you factor in price.

In the last bull market gold rose 24.3 times its beginning low. Since 2001, gold has risen from $252 to $1,923.70 at its high, only 7.63 times.

In the last bull market silver rose from $1.2929 to $50, 38.67 times. In this bull market so far it has risen from $4.02 to $48.584, 12.08 times.

Not enough price, not enough time.

By the way, silver's fall from the April 2011 high at $48.584 to its 15 April low at $22 amounts to only 54.7%. Painful, but not as bad as the 57.2% loss in 2008, which took silver lower than the starting point for that rally, $9.595 on 13 June 2006. Yes, silver re-traced every gain from the preceding rally and then some, yet came back to 5.52 times that low

Technically, markets are getting more volatile. Get braced for that. Modern electronic trading and computerized trading speeds propagation of panics. That speed and sudden course reversals also reflects the fear of investors everywhere.

FUNDAMENTALS

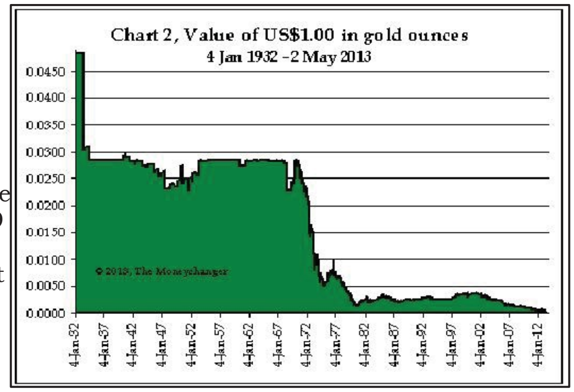
Technical analysis tells us where a market is and where it likely will head, but fundamental analysis tells us what drives that market. Think about *cause and effect.*

What drives silver & gold bull markets? *Monetary demand.* Nothing else, not increased jewelry demand or electronic demand or anything else. Those just have to stay about the same, while monetary demand, that new demand, entering the market at the margin, drives the bull

What drives monetary demand? Inflation, pure and simple. Central banks and banks printing money, creating new money out of thin air.

Why do central banks and banks create new money? Because that's what they are made to do. The Federal Reserve was *created* to inflate, and therefore it will always inflate. See chart 2 below for the proof.

Why do central banks create new money? So their governments can spend



more than they can tax ("deficit spending"). No people of any nation would support modern wars or welfare states if they had to be taxed for them. They would sooner rise up in rebellion. However, if they are taxed through inflation, by steadily depreciating their currency and capital, not one in 100 will catch on.

Why can't governments stop spending? Because, in the United States at least, *half* of all income arises from government spending, about 20% from state and local government spending, and about 30% from federal government spending. And forget welfare. That's the least part. Defense spending and now, medical spending, cost far more.

Ask yourself: where is the statesman who will dismantle this system? Where is the constituency that favors dismantling it? Forget all the theatricals with the debt limit and sequestration, that is all fidgeting with meaningless fringes. That statesman appeareth not. And if he *were* to step forth, *how long would it take to make the transition?* That spending can't be stopped tomorrow without a civil war. The constituency that now benefits from that government spending will not give it up without a fight.

Why does government and private debt keep growing? Because all money is borrowed into existence, and is born with an interest burden. Stop creating money, and the interest can't be paid.

Because, as the late Charles Walters of *Acres, USA* explained, in the last 60 years

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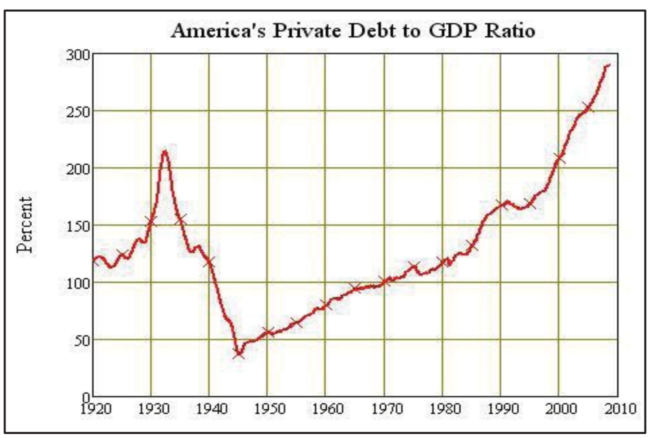
by conscious government policy *debt has been substituted for production to sustain living standards.*

Charlie explained it this way. Every dollar of agricultural income processed through the economy became seven dollars of national income. Since the federal government took control of agriculture in the Great Depression and farm incomes have plummeted. Farmers have been driven off the land. Production vanished, so what can be substituted for that lost income? *Debt.*

Add more: in the last 30 years US industrial production has been shipped overseas, and with it all that income. We've replaced jobs in steel mills with jobs in casinos and McDonald's, and, sure enough, they don't pay as well.

Debt has replaced production, and to keep that debt alive and to continue feeding the banks, *inflation must continue.* People must keep borrowing, America must keep borrowing, to maintain its living standards.

Doubt it? Look at the chart, "America's Private Debt To GDP Ratio." Think of GDP, Gross Domestic Product, as "income." So this chart shows how much private folks in America *owe* divided by how much they *earn.* In 1950, Americans owed a little more than 50% of their income. In 2009, when this chart ends, they owed nearly 300% of their income.



Would you feel financially stable if you earned $100,000 a year but owed $300,000? Spending 20% to 30% of your income merely to pay the interest, never mind the principle? Lose much of that income, and you're looking for a bankruptcy lawyer.

Chart 4 shows both private *and* federal government debt. This chart runs into 2012, and notice that private people have reduced their debt load, which the US government has raised its debt load to levels now approaching that at the end of World War II.

Wait, wait! What does the federal government produce? Oh, that's right: nothing. Everything it spends has to be taxed away from the producers, or stolen from them by inflation. And every dollar producers pay in tax means one less dollar they have to spend themselves or invest in production. All government spending is a drain. Say, that does complicate things, doesn't it?

I hope what I have explained above will convince you that inflation is not an accident, not caused by greedy industrialists or short supply or anything else but central banks and banks creating money. Inflation is their nature; inflation is institutional to the present financial and government system.

Not Ben Bernanke or anybody else intends to stop inflation. He and all the rest of his cronies know all this better than I do.

Oh, and about his famous "exit strategy" that he claims will extinguish the roughly 3 trillion dollars created since 2008: *he has none. The Fed cannot withdraw even a small portion of that from the money supply without lighting a deflationary implosion.*

Inflation is not going away, it is maturing and growing old. The crises which had grown more frequent and greater now won't go away. In fact, since 2008 the US central bank and every other bank and government in the world has demonstrated that they

have only one weapon against depression: *inflation.* They will keep shooting that inflation gun until they can shoot it no more. They never learn, and they are trapped in a system that cannot change.

Inflation, the economy run by government for big business, at big business' control, forms one seamless system. Every part meshes with every other part. Jefferson's nightmare has come true. Hamilton has won: government and money interest are one.

Under *financialization* the financial elite that benefits most from inflation has, effectively, taken over the government.

FINANCIALIZATION

Long term Inflation always turns the nation's economic focus from *production* to *speculation.* Simply put, inflation enters the economy first in the financial world, making money artificially cheap & plentiful for speculators. People aren't dopes, and don't want to work any harder than they have to. People see speculators – gamblers – getting rich, and that attracts them away from the get-rich-slow world of production. They drift into the financial industry.

Financialization is the child of inflation and fractional reserve banking, which provides the leverage. The financial sector of the economy has nearly quadrupled, grown from less than 3% of the economy 60 years go to almost 9% today. See the chart, "GDP Share of Financial Industry." (on page 12) Financial sector profits make up about 30% of all corporate profits.

SECURITIZATION

Financialization has fed on the securitization of all assets. Every thing that could be packaged and sold forward as a "security" has been.

Think of it this way: A worker wants a house, but hath not yet the money. The bank accepts his future labor as collateral for a mortgage, "securitizes" his future labor,

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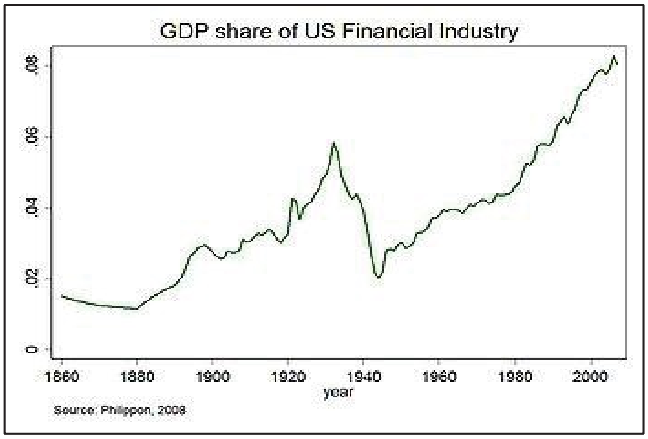
places a lien on all his future production, and creates a mortgage, collateralized by a



building but secured by his future labor.

Or a student wants to become a physician. The bank makes him student loans (backed by the US government) which "securitize" his future labor. That loan has a claim against all his future labor, and in 2005 Congress changed the bankruptcy laws so that claim can never be bankrupted. Once you're a debt slave, you're a debt slave forever. Banks can't even spell "manumission," let alone practice it.

Mortgages are then bundled into "Mortgage Backed Securities" and marketed. Yes, you're right, that is piling one level of abstraction upon another. Insurance, too, has been securitized with derivatives of all sorts.

SOMEBODY BENEFITS

The financial elite benefitting from this speculation and financialization eventually grows so powerful, as it has in the United States, that it effectively takes over and runs the government. That's why banks make bad loans and the government bails them out with a TARP plan, picking the taxpayer's pockets for $700 billion to make good the banks' losses. Laws that stand in the way of their recklessly expanding their speculation are done away to make the way for even riskier speculation.

This throws the economy out of balance. Instead of applying capital to production which produces economic growth, capital is diverted to financing, speculation, mergers, acquisitions, Credit Default Swaps, and financial markets. Productive industry is starved for capital as "finance" crowds out all other economic activity. Speculation replaces production.

At the very best, the financial world and banking are a necessary evil – evil in their threat to economic health, self-government, economic freedom, and freedom from debt slavery, necessary as mediators of capital from savers who have it to entrepreneurs who need it.

But wait. Banks are now mediating capital *away* from productive entrepreneurs to gamblers. They have transmogrified from a *necessary* evil to a *plain vanilla* evil without any redeeming social value.

If you think I sound like a communist, I have to laugh. Look around you: what big business and financial capitalism and industrial capitalism always lead to is NOT free markets or free enterprise, but the exact opposite: communism, whether called "socialism," "fascism," or "communism" is all the same. Traitor, terrorist, bourgeois, or bankrupt, they are all pleased as punch to put you up against the wall and shoot you or take your house. All the same to them. Whatever way they have to suppress competition and free markets is fine with them.

MARKET MANIPULATION

One last word on market manipulation. This is not my crazy conspiracy theory rumination, but plain fact: statute and stated government policy.

In the 1935 Gold Reserve Act the US Treasury was given a secret slush fund, the Exchange Stabilization Fund, with mandate to intervene in the currency and gold markets to maintain the dollar's exchange rate. The law *requires* the Treasury to manipulate, and it *shields* that manipulation from public scrutiny. Yes, they manipulate the gold and currency markets.

Central banks' policies and actions since 1996 show a concerted pattern of battling gold's price.

After the 1987 stock market plunge, by Executive Order 12631 of 18 March 1988 (see 53 FR 9421, 3 CFR, 1988 Comp., p. 559) President Reagan created the President's Working Group on Financial Markets (a.k.a., Plunge Protection Team). Beside the Treasury secretary, the Fed Chairman, the SEC & CFTC Chairmen, the PPT works with market participants. I don't doubt they intervene in markets.

But even if the PPT didn't intervene in markets, what do you call the Fed's creating three trillion bucks to float the stock market? Did Ben not know that inflation flows first into financial markets? Is a pig's rear pork?

Of course the Fed's running dogs and lackeys attacked gold beginning April first, with Société Générale, Deutsche Bank, Goldman Sachs issuing reports panning gold, and Goldman Sachs publishing a sell recommendation. They did exactly what you or I would do if we wanted to manipulate the gold market: they waited until it was weak then hit it with all they had.

CAUSE & EFFECT

I have argued in this article from *cause and effect.* If the cause doesn't change, then the effect will continue. If inflation causes monetary demand and monetary demand causes gold and silver bull markets, and if inflation is so institutionalized that it *must* continue, then the cause – rising gold and silver values – must continue.

The thorn behind this rose is the terror wracked on our emotions by these periodic government and central bank raids on the market. And make no mistake, even without government manipulation, bull markets undergo harrowing corrections. You want to ride the bull? Then you have to take your lumps and hold on.

Take this home: *the gold and silver bull market has not ended.* From these lows prices will rise several multiples. The metals markets – and the government manipulators – have not handed you defeat, but opportunity, an opportunity to buy more silver & gold at reduced prices.

I know no other way to protect your capital.

– F. Sanders