What lies ahead for the Economy, the Stock Market, Oil, Natural Gas, Gold and Silver, and Monetary Policy?

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By Joseph Meyer
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June 2014 Edition

Straight Money Analysis Newsletter

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A word about your newsletter

As we begin the 4th year of publication, we are proud of the fact that over the last three years we have been able to provide our subscribers the most accurate analysis and forecasts of market trends anywhere. As we enter the volatility of another presidential election cycle, your Straight Money Analysis newsletter is more important than ever. Rest assured that we will continue to provide you with the same kind of information used to form highly guarded proprietary investment strategies and market analysis as individuals managing a billion dollar hedge fund on Wall Street has at only a fraction of the cost.

Our track record speaks for itself. Straight Money Analysis has consistently called these markets to perfection. No other newsletter can even come close to our level of accuracy, accessibility, and unflinching commentary. That is the reason why we are the very best at what we do, period.

I strongly suggest that you, along with your investment professional's help, take full advantage of this newsletter. And please don't forget to urge friends and loved ones to get a subscription to Straight Money Analysis. Follow me on Twitter at josephmeyer@meyerassoc, or find me with the twitter and You Tube icons on the www.straightmoneyanalysis.com *home page.*

Respectfully

Joseph Meyer, *Founder and President of Straight Money Analysis*

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Because of the acceleration of globalization and international trade, Straight Money Analysis will give you the essential information to gain a greater understanding of the changing logistics currently underway in the world's economy. The topics discussed on a monthly basis are often historic in nature, for the purpose of providing direct correlations to those current events in the news that are effecting major policy decisions of commercial institutions.

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The Economy: Understanding the economic impact of offshoring, major subsidies, and the wealth and income gap in America

ARE THE DAYS OF BUSINESSES LEAVING U.S. FOR LOWER TAXES COMING TO AN END?

Washington divided over the issue

I have long said that the recovery, which we are told is underway, is unsustainable without the creation of decent paying jobs. The elected officials in Washington do understand this reality. The problem is that they have failed to work together to sincerely address the issue. To do so would require tough and perhaps very unpopular choices. So far we have seen two basic approaches from our lawmakers in Washington in what has been a rigid ideological struggle on how to incentivize American businesses to create more jobs here at home, and not send them offshore. U.S. Senate Democrats back the idea of taking the profit motive away from U.S. companies looking to move abroad for a lower tax bill. The Republicans want to lower the corporate tax rates through changing the way the United States taxes U.S. multinationals. A good compromise would apply both approaches.

How do these kinds of mergers work?

The trans-national merger process is called "inversion." The way it works is the foreign partner must own more than 20 percent of the stock in the merged company. The proposed mergers between major American companies and foreign rivals that would end up in their reducing their U.S. tax bill, has been strongly condemned by Democrats. The proposed merger by Pfizer with British pharmaceutical maker AstraZeneca has become the poster child for opponents of merging to a more tax-friendly country.

Will policies from Senate Democrats work?

Democrats want to raise the 20 percent threshold for an inversion transaction to at least 50 percent. This would surely derail the momentum of trans-national merging of firms for lower taxes for many companies. Still, it would take a long time to slow offshoring business, or to bring back enough jobs to make the recovery sustainable. Thus, the U.S. will remain mired in a jobless recovery.

Will policies from Senate Republicans work?

Republicans are also aware that they need to be concerned over these inversion transactions. They know the American people do not approve of the government incentivizing any further abandonment of labor in the United States. However, Republicans prefer not to simply create more hurtles to inversion transactions. They believe the U.S. must instead become a more desirable nation to do business. Therefore they have steadfastly prescribed reducing corporate and multinational's tax rates. It is unlikely that the current lower top tax rate for corporations in the U.S., which is 35 percent, will be reduced. But rest assured, the trusty old loopholes in the tax code will stand and probably be expanded.

CURTAILING THE SUBSIDY WAR WITHIN THE UNITED STATES

Are subsidies a waste of tax revenue?

Subsidies to attract business costs state and local governments tens of billions of dollars per year. States are in fierce competition with one another to attract new business, hence I characterize it as a subsidy war. But you need to know that these subsidies are a waste of taxpayer dollars. State and local government revenue is scarce and what is collected could be better used for public services such as education and infrastructure. This is money that could be used to lower overall tax burdens, which in turn would create a more favorable investment climate. Citizens in every state hate having to subsidize business, but their elected officials fear losing jobs to competing states if they refuse. Additionally, many lawmakers depend on funding from many of these companies to finance their campaigns. Bottom line, this is yet another reason why the economy is still in major trouble.

The Problem

State and local governments use subsidies to attract or retain specific businesses. The subsidies can be in the form of tax breaks, cash payments, generous loan terms, or discounted public services. Rarely do the benefits of these subsidies exceed the costs. The problem is that there is no formal accounting of these subsidies in government budgets. The national total spent on these subsidies is more than $80 billion annually. In 2013, Washington State granted the largest subsidy to a single company in U.S. history when they gave Boeing a package worth $8.7 billion. This money was give away without a serious estimate of the total benefits. Any shortfall is transformed into more unfunded mandates bound around the necks of local governments which creates additional losses at their level.

How to curb subsidies

Reducing wasteful state subsidies to businesses will require the following:

1) Greater transparency and disclosure of the elements of the subsidy packages.

2) Moving incrementally toward more enforceable rules.

3) Voters must begin to demand a serious cost-benefit analysis to determine if it is worth taking money from police, infrastructure redevelopment, and education and giving it to businesses.

4) The U.S. Congress should act to curtail the subsidy war, but has chosen not to do so. Historically, Congress has been reluctant to interfere in what are seen as state-level prerogatives. Congress could require state and local governments to report all subsidies to a federal data warehouse, and make that data publicly available. The United States is already required to report these subsidies to the WTO, but administrations have done little to press the states for greater disclosure, even while demanding greater transparency by foreign governments. Such disclosure would make subsequent steps easier by highlighting subsidies for public scrutiny.

5) The federal government could intervene in controlling state subsidies just as the United States has led international efforts to get all countries to reduce subsidies that distort business location decisions. The United States led negotiations through the World Trade Organization in the 1990's, and through the Organization for Economic Cooperation and Development dating back to the 1970s that produced agreements to limit government subsidies to exporters.

These measures would reverse a growing competition spiral in which states try to outbid each other for investments, and could provide a modest boost to state revenues. The politics will be hampered by corporate opposition, but there are bipartisan benefits for both parties. Democrats should favor reducing corporate subsidies that rob state governments of revenue. Republicans should support ending government interference that distorts competition in the market. At a time when governments at all levels are straining to stretch every dollar out of tight budgets, there are strong incentives for such cooperation. Curbing waste in subsidies must be an essential element in the foundation for sustainable economic growth. Until we get serious about this, it will remain a glaring indicator that the recovery is still a pipe dream.

THE ECONOMIC IMPLICATIONS OF AMERICA BECOMING AN OLIGARCHY: A brief examination of the growing wealth and income gap

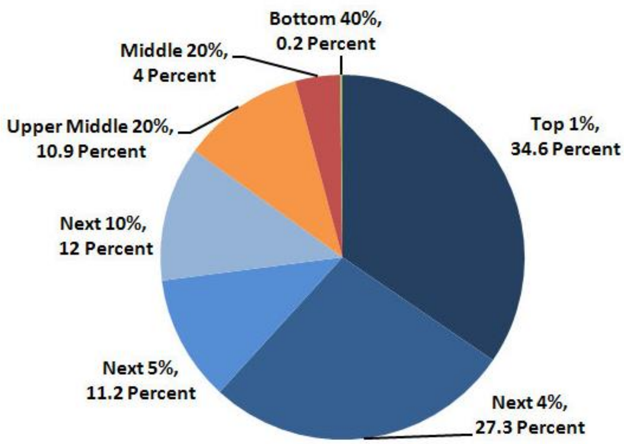
Is our democratic society under threat?

An April 9 report from two major universities about wealth disparity in the U.S. is becoming the subject of conversation all over country. It challenges the notion that America is still a democracy. Martin Gilens, a professor of politics at Princeton University, and Benjamin Page, a political science professor at Northwestern University, finds that the wealth in the U.S. has become so concentrated into so few hands that majority no longer rules in the United States. The report entitled "**Testing Theories of American Politics: Elites, Interest Groups, and Average Citizens**" says "*that if policymaking is dominated by powerful business organizations and a small number of affluent Americans, then America's claims to being a democratic society are seriously threatened.*"

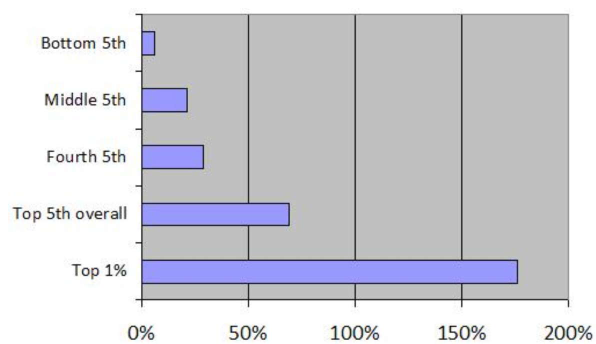
What do the numbers say?

In all fairness to the authors of this report they do not use the term oligarchy specifically but they does use the phrase "*economic elite domination.*" But the numbers don't lie. They say that the authors of this report have a strong point. I believe that we must consider it as a reason why there is such a tremendous gap in wealth and income in America, as is illustrated in the charts below.

U.S. Distribution of Wealth 2007



U.S. Distribution of Income 1979 - 2005



The implications of this level of economic advantage in the hands of so few, and economic disadvantage for so many, makes it irrelevant whether you call it an oligarchy or not. As the authors of the report said: "*The central point that emerges from our research is that economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while mass-based interest groups and average citizens have little or no independent influence*."

Four traditional theories

In compiling their research, the authors define and study what they consider to be the "four theoretical traditions in the study of American politics." They label these four theories as Majoritarian Electoral Democracy, Economic Elite Domination, and "two types of interest group pluralism, Majoritarian Pluralism and Biased Pluralism." These can be briefly defined as follows:

1) **Majoritarian Electoral Democracy**: U.S. government policies are determined mainly by the collective will of average citizens, who are seen as empowered by democratic elections.

2) **Economic Elite Domination**: U.S. policy making is dominated by individuals who have substantial social status, institutional position, and economic resources, i.e. high levels of income and/or wealth.

3) **Majoritarian Pluralism**: In my opinion, James Madison's analysis of "factions" in *Federalist Papers* best summarizes the Founders' belief on this issue. Madison wrote that "struggles among the diverse factions that would be found in an extensive Republic would lead to policies more or less representative of the needs and interests of the

citizenry as a whole." In other words, diversity in debate leads to the best outcome for all. Madison also believed it would tend to defeat the much-feared issuance of inflationary paper money. I wonder what he would have to say about that now.

4) **Biased Pluralism**: Biased pluralism generally tilts toward the wishes of corporations and business and professional associations. The report's authors believe that the biases of special interest groups invariably are in favour of big business.

Other ways the broader society suffers from the wealth gap

1) Former World Bank Joseph Stiglitz argues that hyper-inequality may explain why America's infrastructure, and other public investments, are deteriorating. He also say it may explain why there was no reluctance to engage in military conflicts such as the 2003 invasion of Iraq. The costs of the all wars, low-intensity conflicts, peace keeping missions, and police actions over the last 60 years have been disproportionally borne by the poor and middle class in America. The top wage earners and elite wealthy have enjoyed a lack of personal or family sacrifice involved in the military intervention of their country. Their children, few and far between, have had to serve in the relatively low-paying all-volunteer military. This may mean there has been more willingness by influential wealthy to see its government wage war.

2) Top earning families, wealthy enough to buy their own education, medical care, personal security, and parks, have little interest in helping pay for such things for the rest of society, and the political influence to make sure they don't have to.

3) Wealth concentration in a smaller segment of the population may affect charitable giving. In 2011, the top 20 percent income group donated 1.3 percent of their income, the bottom 20 percent, 3.2 percent. Donations among the economic elite were more likely to go to elite colleges, universities, museums and arts organizations; and less likely to go to social-service organizations, such as the United Way, Salvation Army, or Feeding America.

4) The relatively high rates of health and social problems such as obesity, mental illness, homicides, teen pregnancy, incarceration, and drug abuse are arguably exacerbated by the wealth gap.

5) In fact, according to a recent UN Human Resources report, the United States at the top of the list in regards to inequality and various social and health problems among developed countries. The authors argue inequality creates psychosocial stress and status anxiety that lead to social ills. Paul Krugman argues that the much lamented long-term funding problems of Social Security and Medicare can be blamed in part on the growth in inequality as well as the usual culprits like longer life expectancies. The traditional source of funding for these social welfare programs, which has been payroll taxes, is inadequate because it does not capture income from capital, and income above the payroll tax cap, which make up a larger and larger share of national income as inequality increases.

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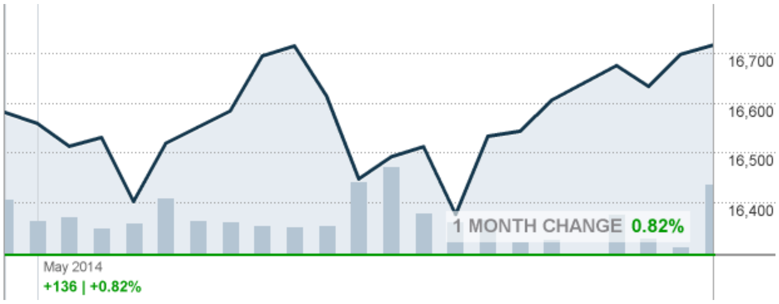
The Stock Market: The top is at hand, and a closer look at drinking water



The top is at hand

The momentum of the current liquidity driven rally continues with price corrections in stocks being very mild and of short duration. My belief that this equity market is in the process of making a very important and historic long-term top has not changed. This is because I have not failed to keep the important points in proper perspective. I am fully aware that we now have equity valuations at a level only exceeded in 1929, 2000, and again in 2007. Quite simply, I understand how historic the current highs are. I've been in this business long enough to expect greedy investors not to recognize an approaching top in the market. Recent intelligence reports echo my point recording current bullish sentiment at over 55 percent with bearish sentiment now below the level of 20 percent; a level it has been at for almost 3 months. We still continue to witness investors willing to buy the dips and not sell into the rallies to lock up profits on long-term equity positions. I cannot emphasize enough the importance of being in the strongest sectors of the equity markets for the right reasons. But you are still not convinced a long-term top is building in the equity market, I am listing four signs of an impending top in equities. I recently did a radio show with Josh Tolley. I outlined for his listening audience the reasons why I believe we are now making a very important long-term top in equities with many individual investors now throwing caution to the wind.

Four signs of an impending top in equities

1) Corporations have higher levels of cash than ever but they also possess more debt than ever through corporate borrowing, which is at the highest level in history. The other immediate problem that few at this point have even considered or acknowledged is that corporate profits appear to have peaked. If this is true then earnings which have driven this market from the 2009 lows cannot help further. I also want to mention that corporate cash is now at a 15 year low compared to existing debt.

2) We now have over 90 million Americans represented in the labor market. This is up from the level we witnessed since the 1980's when the figure was about 40 million Americans. I also want to mention the current labor participation rate is only 62.8 percent, which is also the lowest level since the year 1978. In April 2014 the labor force dropped by one million workers while only 288,000 new jobs were created. In Europe we have record

unemployment with most countries recording record deficits while markets still trading near their highs.

3) If we then add record low wages and the number of people currently on food stamps and Social Security you have a much different picture of the current US economy than we are being told. Investor sentiment remains very bullish. We still have a bullish reading of 55 percent bulls and we currently have a bearish reading of only 19 percent bears. Investors still want to believe that economic growth will continue and that current stock market valuations remain reasonable if not inexpensive.

4) The stock market is now making history trading at price levels not seen since the historic tops put into place first in 1929, then again in 2000 and 2007. The Fed is now tapering its quantitative easing program and is scheduled to withdraw QE completely in October 2014. A year ago we had 90 percent of the stocks in the S+P 500 index trading above their 200 day moving average. We now have currently only about 70 percent of stocks in the S+P 500 index trading above their 200 day moving average. I also want to mention that we now have an all- time record high in reading in margin debt as a percentage of GDP.

A SECOND LOOK AT THE DRINKING WATER SECTOR

The long-term value of owning "blue gold"

The drinking water sector of the equity market remains under-valued, under-owned, and misunderstood. It represents I believe extraordinary long-term value as water is known in some parts of the world as "blue gold" and is in very short supply. The long-term serious money in any market is made by understanding the basic fundamentals of any group in the market place. The next step is purchasing the highest quality companies conducting business in this sector. This must be done while they are still so greatly under-valued or under-owned. I wrote about this sector in an earlier previous issue of this newsletter, alerting my subscribers why they should consider participating in this sector of the equity market.

The fundamentals are positive

In the few years that have passed since I highlighted the positives in owning water, the fundamentals of the drinking water sector have not only improved, they have strengthened. I wanted to once again review the fundamentals of the drinking water sector along with a review of the drinking water companies. I have even listed for your review the three highest quality drinking water companies along with two four star Morning Star rated mutual funds.

Your success

I do not know of another newsletter that is consistently providing you with the insight and the knowledge necessary to make informed decisions allowing you to be successful with your investing. I want you to be successful and I can provide the information necessary to make that a reality, the rest is up to you to apply this knowledge and use it to your best advantage.

Review of the drinking water sector

1) The global water industry is currently a $500 million per year enterprise. It is projected to grow to a $20 billion industry by the year of 2025. We will continue to see expenditures increase in water's infrastructure build up. It is also projected that we will spend about $130 billion by the year of 2016 on modernization of water's infrastructure. The capital expenditures will be profound in the area of desalinization. Spending in this area to increase by $18 billion by 2016. The dependence on drinking water will dramatically increase over time. It is still not too late to invest in this sector of the equity market. The world water organization estimates that water dependence will grow by 56 percent in the decade ahead of us.

2) The United Nations recently stated that we currently have one billion people globally who do not have access to water with 2.5 million people not even having basic sanitation. The world's population also, according to the United Nations, is projected to grow by 2 billion people by the year of 2015. In the next 25 years we are projected to spend more money on water than on seaports, railroads, and road construction combined. Water covers now three quarters of the earth but 97.5 percent of this water is undrinkable sea water and what remains is frozen in glaziers. In the last 10 years diarrhea has killed more children than all of the people lost to armed conflicts since World War II. We now have 80 percent of the diseases in the developing world being caused by contaminated water.

3) Water is currently the third largest industry behind electricity and oil, generating over $400 billion per year. Water is a must own commodity yet few even at this point are even aware of this very important and profitable investment opportunity. Half the world's 500 major rivers have already been seriously depleted and polluted. We also currently have over 30,000 contaminated ground water sites in the United States. Twenty five percent of fresh water fish have now been pushed to the point of extinction due to contaminated water. In the developing world, water is very expensive with the cost in some instances exceeding one quarter of the average household's income.

4) Half of the world's hospital beds currently are filled by people suffering from water relates illnesses. If we did nothing more than provide access to clean water without any further medical intervention we could save 2 million lives per year. It is further estimated that 5.3 billion people, or two thirds of world's population will suffer from

water shortages by the year of 2025. Twice as many people are dying from diarrheal diseases in China, India, and Indonesia than are dying from HIV/AIDS. The water and sanitation crisis claims more lives through disease than any of the world's wars, peace keeping missions, police actions, or low intensity conflicts. We also now have over 6,000 children dying every year from disease associated with lack of access to safe drinking water, inadequate sanitation, and poor hygiene.

THE DRINKING WATER COMPANIES (NAMES AND STOCK SYMBOLS)

1) American Water Works (AWK)
2) Aqua American Inc. (WTR)
3) American States Water Company (AWR)
4) California Water Service Group (CWT)

THREE HIGH QUALITY DRINKING WATER COMPANIES

	Company Name	Stock Symbol	52 Week High/Low	Dividend/Yield
1)	American States Water Recent Stock Price $27.89	AWR	$33.09 - $15.07	$0.81 - 2.8 percent
2)	American Water Works Company Recent Stock Price $46.70	AWK	$47.65 - $38.91	$1.24 - 2.6 percent
3)	Veolia Environment S.A. Recent Stock Price $18.36	VE	$20.38 - $10.98	$0.97 - 5.2 percent

TWO FOUR STAR DRINKING WATER MUTUAL FUNDS

Mutual Fund Name	Symbol	Recent Price	Total Assets
1) Calvert Global Water Fund A Morning Star Rating 4 Stars	CFWAX	$20.18	$468.43 million
2) Alliance Global Water Fund A Morning Star Rating 4 Stars	AWTAX	$13.00	$318.07 million

Caution moving forward

I continue to believe and advocate a fully defensive position in the Equity Markets. It is equally clear that this bull market is now very aged, mature, and tired. The energy sector of the market remains very strong it is signaling to me that we are now seeing the final lows now being put into the precious metal sector of this market.

Watching the moving averages

The current 200 day moving average for the Dow is in the 15,931 area, and the 50 day moving average is at the 16,457 level. In the S+P 500 Index the current 200 day moving average is at the 1,795 level, and the 50 day moving average is in the 1,874 area.

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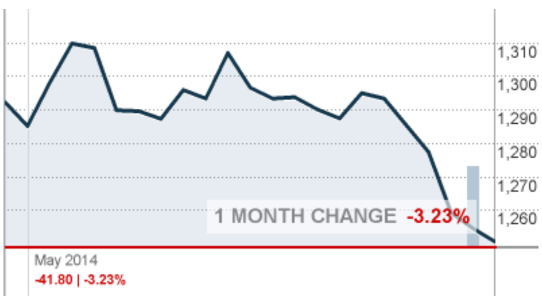
Gold: Remembering the lessons from history about today's gold market



Have we seen the lows for gold prices?

Gold remains under pressure. On top of gold's current pressure, an options expiration in the last week of May resulted once again in a large swing in prices. But we are at a notable time for gold because June and July is a period which most often sets the reactionary lows in price for both gold and silver. I am still of the opinion, until proven otherwise, that the low reached last June and tested in December will be the lows for the correction in prices in both gold and silver.

Now is the time

I continue to believe that history will record that precious metal mining shares at these current price levels still represents an extraordinary opportunity, and should continue to be accumulated. The reactionary lows in both gold at $1180.00 per ounce and silver at $18.50 should contain any worst case further price weakness in both metals.

REVIEW OF 36 YEAR PANICS IN THE FINANCIAL MARKETS

I also want to remind my old and new subscribers about a 36 year cycle in the financial markets. The last and most recent recognizable panic took place in 1980 when the Hunt Brothers attempted to corner the silver market. We had interest rates approaching 20 percent with gold trading at $ 850.00 per ounce and silver approaching $50.00 per ounce. If we go back 36 years prior to 1980 we arrive at the year 1944. That was the year of the Bretton Woods Agreement which established the dollar as the world's reserve currency backed by gold. Travel back from there another 36 years and you'll arrive at the year 1908. That year we had a panic in the stock market, and J.P. Morgan had to intervene to save the market from collapse. 36 years prior to 1908 we had the panic of 1873, triggered by German manipulation of the gold and silver markets. In 1837, again, 36 years before 1873, we had a panic caused by a debt crisis and high unemployment; very similar to what we are experiencing today. This history, using the 36 year cycle, tells us that the next full blown financial panic will occur in the year of 2016, or possibly sooner. You would be smart to get prepared for a calamitous event in the financial markets. I believe it will happen whether you are prepared of not.

SEVEN KEY GLOBAL INFLUENCES PERTAINING TO THE PRICE OF GOLD

1) The spread of war continues unabated all over the world. China and Russia, along with Eastern Europe, are adding to their respective gold reserves amid the chaos. The world, as we once knew it, is being challenged on many levels; diplomatically, politically, and possibility militarily. The world has become a tinderbox of violence and uncertainty. No one can predict where the next crisis will occur. We have become a very unstable world that is rapidly spinning out of control.

2) We know that gold has been under intense manipulation by the central banks. The manipulation is obvious. The evidence is coming in from all directions. The question is when will it end? I believe it will end when the physical shortage gets to the point that someone fails to deliver. At that point, there could be a buying panic or a demand shock. Thus gold's manipulation will end when physical shortages reaches their tipping point.

3) With currency depreciation now accelerating in currencies all over the world, the fate of the dollar is now center stage. Upcoming elections in India, bringing a potential change of government, leadership is creating a reemergence of gold buying in anticipation of major policy changes effecting gold purchases. Gold is returning to be the basis for the new world's reserve currency just like it did after the close of World War II. We are going to witness many people losing a substantial portion of their accumulated wealth when the global monetary reset takes place. Gold will be at the center of it make no mistake about it.

4) Wars are very expensive. They cause nations that enter war to go into debt, or to create debt based money, to finance them. The annexation of the Ukraine will be very costly for both Russia and the United States, if in fact, hostilities do break out in this ongoing widening conflict. The 10 year war in Vietnam cost the United States $140 billion between 1965 and 1975. In today's dollars that cost would be about $1 trillion, it is the primary reason we came off the gold standard on August 15, 1971. In 1980 total government debt was less than one trillion dollars today it exceeds over $17 trillion.

5) In The United States, we are being told we have just 1.2 percent annualized inflation when in fact we currently have core inflation now exceeding 12 percent annualized. The largest gains in prices continues to be in the agricultural and energy sectors of the economy. All sectors of the economy have been to some degree adversely impacted by the massive money printing disguised as QE stimulus which has failed to revive the economy.

6) Central Banks have been net buyers of gold since 2010. These central bank purchases of gold has not happened at this pace since the early 1970's. Though the 1960's and the 1970's were very interesting and challenging times, I continue to believe, based on hard and irrefutable facts, we are now in the most challenging period in history. Once again, the long awaited and much anticipated global reset of the long held dollar’s dominance is now underway. Its transition will be both historic and equally catastrophic for the people who are both unaware and unprepared for this transition away from the US dollar.

7) In 2012 the central banks of the world have purchased over 500 tons of gold. In the 10 year span of time between the years 2002 through 2012, net sales to net purchases was over 1,000 tons per year. This accumulation during this period was greater than one third of the annual gold mining output. I believe China is now the second largest holder of gold behind the United States, which states it holds about 8,700 tons of gold

GOLD AND THE STRUCTURE OF MONETARY EXPANSION IN THE LATER HALF OF THE 20th CENTURY

In the beginning

The closing of the gold window in 1971 was due to the massive monetary expansion needed to fund the Great Society and the long ongoing Vietnam War which began with the Presidency of Lyndon B. Johnson. The cost of Vietnam alone was over $500 billion in 1960's Dollars. Coupled with the inception of Medicare which also began in 1965, it was these two main factors that led to the abandonment of the gold standard in 1971 by President Richard M. Nixon. It was also the catalyst which began the massive bull market in the precious metals with gold rising from the level of $35.00 to $850.00 in 1980. The catalyst which began the current bull market in precious metals was the announcement of the War on Terror in 2001. I do not know where all of this massive money creation will end. I do know you must own physical gold if you are to survive what is coming, and hopefully prosper from the return to the gold standard. The original agreement worked out at Bretton Woods in 1945 was simply that the United States would not issue more dollars than equal to $35 for each ounce of gold on deposit at the central bank.

How long do commodity bull markets last?

The typical commodity bull market lasts approximately 18 to 20 years with the largest gains being recorded in the second half of the bull market not the first. Because the amount of paper dollars in circulation continues to grow in relation to our purported gold reserves, I wanted to outline for you my subscriber the top six defining moments regarding gold and its role in monetary history going all the way back to the year 1945.

SIX DEFINING MOMENTS REGARDING GOLD SINCE 1945

1) The Bretton Woods agreement at the conclusion of World War II in 1945 mandating $35.00 paper dollars would be equal to 1 ounce of gold.

2) At the beginning of the London Gold Pool in 1961 the number of paper dollars equal to one ounce of gold grew to the level of about $64.00 to 1 ounce of gold.

3) During the time of the Presidency of John F. Kennedy in 1963 the number of paper dollars equal to one ounce of gold had risen to the level of about $81.00 to 1 ounce of gold.

4) By the time of the ending and closing of the London Gold Pool in 1968, the number of paper dollars equal to one ounce of gold had risen to the level of $135.00 to 1 ounce of gold.

5) President Richard M. Nixon announces the closing of the gold window to the French on August 15, 1971. The number of paper dollars equal to an ounce of gold exceed $198.00 dollars to 1 ounce of gold.

6) Today in 2014, after several years of continuing massive central bank money printing, we now have over $5,000.00 dollars created for every one ounce of gold held by the Federal Reserve.

Watching the moving averages

The current 200 day moving average of price for gold is the $1,298.00 area, and the 50 day moving average of prices is the $1,297.00 level.

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Silver: Why it is not too late to own silver

Why the long-term outlook for the price of silver remains very positive.

It is important that we continue to focus on the long-term positive fundamentals which dictate we continue to add to our gold and silver holdings. If you have had the patience to hold on to your silver positions, globalization's acceleration should reward you in the long-term. China is now expanding and accelerating their electrical grid, which will require a tremendous amount of silver to complete. Additionally, India now poised to grow their economy by 8 percent a year. Because silver has paramount importance in China and India's growth moving forward, these two nations are now leading the way in silver becoming a very important strategic metal. I stated in article recently in Forbes that India's economy in the next decade has the potential to even surpass the growth we witnessed with China.

Seasonal support

We are now entering a period of seasonality which will last through the months of June and July. I am expecting the lows for the year to be put into place during these two summer months.

CYCLICAL EXPECTATIONS

I want to review two important facts pertaining to gold and silver. I stated these two sets of facts few people if any are aware of in one of the very first issues of my newsletter. Here is that list again for you my subscriber; the 40 year cycle high and low for the price of gold. I also wanted to list for you the history of silver's 50 year cycle. The ratio of one of silver equaling one ounce of gold happens once every 50 years. It is next scheduled to happen in the year of 2020 or sooner. It is also important to remember that in 1980, 17 ounces of silver equaled the price of one ounce of gold. I also want to remind my subscribers that twice in history we have witnessed one ounce of gold buying the Dow Jones Industrial Average. The first time was in the year of 1932 the second time was in 1980. Will there be a third time that one ounce of gold will buy the Dow? I sure think so; do you?

40 year cycle highs and lows

1) Highs were in 1920 and 1980 with another high projected in 2020

2) Lows were in 1940, 1960, and 2000

50 year silver to gold ratio cycle

The ratio of 16 ounces of silver equaling one ounce of gold happens once every 50 years prior dates when this did happen were in the years listed below.

1) 1870

2) 1920

3) 1970

4) 2020 projected

CHINA, GERMANY, AND RUSSIA vs. THE WEST

Four things that truly matter

1) Gold and silver are now currently selling for below the cost of production. How much longer this will continue? No one knows. The large money center banks have been successfully suppressing the price of both gold and silver. It is very important to understand that no nation in history as deeply indebted as the US currently is has ever successfully extracted itself from a currency crisis that followed. That's one reason why I believe that the directional move in both gold and silver, contrary to what most people want to believe, is still firmly intact. The long-term up-trend is still in force.

2) The world continues to change, and in a rapid manner. China has been recently named the largest economy in the world. Germany is also currently considered one of the world's largest economies. It continues to be an important lynch pin for all of Europe's other economies as well. China, Germany, and Russia now are forming a long-term economic relationship. The long-term meaning of these dynamics, coupled with the implications of trade by these countries is understood by few Americans. It has never been more important, or for that matter, a better time than now to own both gold and silver. The massive power shift from the East to the West not only continues, it is now accelerating, yet few if any have any awareness of this important fact.

3) If we currently look at Russia in terms of both natural resource exposure and commodities, it may actually be the world's largest economy. Nonetheless, the Chinese are now embarking on a massive building of their energy infrastructure. It is also now also increasing its ability to transmit high voltage electricity as it continues to broaden out its manufacturing capability. If I am right on what is happening and what it will mean moving forward between China, Germany, and Russia, then gold and silver will play very important roles moving forward. We may see either the Yuan, Rubble, or Mark, along with gold become a new reserve currency. While the Russian Rubble is least likely of those three currencies to become a global reserve currency, it could be a regional reserve currency. I have often stated this in this newsletter, as my long-time loyal subscribers know: It is not what you think you know but what you do not know that will harm you financially in the market place.

4) If we go all the way back to January 1980, according to the data stored in the World Bank's archives, we find the medium increase in commodity prices of 62 various commodities was 187 percent. Silver is now trading at less than 50 percent of its value going all the way back to January of 1980. Gold is now, at current prices, almost $450.00 higher than where it traded in January of 1980. The simple reason is that the silver market is a lot smaller than the gold market. It is easier to suppress prices in a smaller market than in a larger one and that is exactly the reason silver is lower now than

it was in 1980. Silver, based on history, remains the most undervalued asset class on the planet. This makes owning silver one of the best long-term investments you can make.

THREE PRECIOUS METAL MUTUAL FUNDS

I listed three precious metal mutual funds for the small investor which have had good year to date performance. I would review these funds with your investment professional to determine the appropriateness of making then an addition to your portfolio.

	Fund name	Symbol	Recent Price	Performance YTD	Total assets
1)	Vanguard Precious Metals + Mining Morning Star Rating is 4 Stars	VGPMX	$10.99	+ 7 percent	$2.54 billion
2)	American Century Global Gold Fund Morning Star Rating is 2 Stars	BGEIX	$9.38	+ 14 percent	$451 million
3)	Oppenheimer Gold Metals + Special Mineral Morning Star Rating is 2 Stars	OGMBX	$16.36	+ 8 percent	$1.37 billion

Watching the moving averages

The current 200 day moving average for the price of Silver is in the $20.79 area, and the 50 day moving average of prices is at the $19.63 level.

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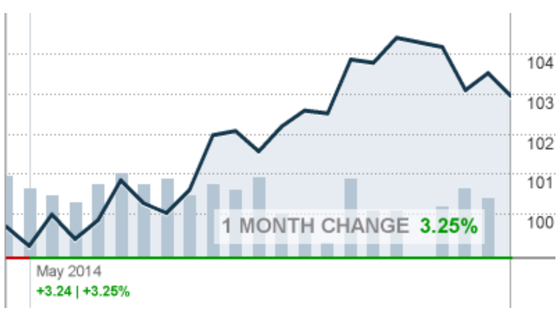
Oil: The strategic challenge to secure oil, and some very good mutual funds



The battle for strategic energy resources

The recently announced $400 billion deal between Russia and China is clearly telling a story about the future of the petro-dollar. China continues to aggressively move away from US dollar denominated assets and accumulate Gold at record levels. The next calculated phase of securing strategic energy resources has now begun. The average American at this point does not understand what this will mean for the future of the dollar moving forward.

Seasonal factors

I also want to remind my subscribers that with the Memorial Day holiday weekend we kicked off the beginning of the peak driving season. It will last through the Labor Day holiday weekend and we are already witnessing sharply higher gasoline prices in many parts of the country. I do believe this driving season could well produce record prices for both gasoline and diesel fuel, bringing even more pain at the pump to the cash starved consumer.

Continuing political instability leading to inflation

The ongoing political instability in Venezuela continues to deteriorate. It is important to note that Venezuela has very large both crude oil and natural gas reserves and they were also one of the few countries that was able to secure their gold reserves being held at the central banks. The global energy wild cards now moving forward are Egypt, Iran, Iraq, Saudi Arabia, and now Venezuela. We must continue to prepare for still higher crude oil prices, which will mean inflationary pressure in the sectors of both food and energy.

High oil prices will lead to slow economic growth

I have mentioned many times that the key threshold in price to radically slow any economic growth is the $80.00 dollar a barrel level. I am expecting oil to prices remain high. I believe if they do we will see a pronounced economic slowdown through the summer months carrying into the end of the year.

We are still dependent on imported oil

Contrary to what we are being told in the media, the world continues to be very heavily dependent on the continuous flow of crude oil from the major producing countries. In fact 80 percent of all crude oil produced is used as transportation fuel in shipping, aviation, railways and commercial trucking.

Will we see alternative to oil in the port-peak production era?

I have argued for many years that I believe as the late great oil analyst Matt Simmons stated that we are now well past peak oil production. The Saudi oil fields are now well past peak oil production at a time when they are now being called upon to increase oil production. I know we are continually told that we are going to see alternative energy play a much larger role moving forward in our global economy. If it were 40 years ago and we did not have China and India massively continuing to build out their respective infrastructures and industries I might have believed it. China and India are a game changer. Make no mistake about it they will continue to consume massive quantities of both gas and oil over the next 20 years.

Why I have remained so bullish on the energy sector

I love to own both crude oil and natural gas. I now want to mention a few good reasons why. Just look at how much oil has increased in price since the end of World War II. Note the two all-time price levels for the price of a barrel of crude oil. The first level is the all-time low for a barrel of crude oil which was in February of 1946 at the level of just a $1.17 a barrel. The second important price level is the all- time high for a barrel of crude oil which was recorded in July of 2008 at the price level of $145.11. I mention this because prior to the oil embargo of the early 1970's crude oil was less than $ 4.00 per barrel and gasoline was about 35 cents a gallon. The cost of a gallon of heating oil was just about 15 cents a gallon and we witnessed it sell for over $ 4.00 per gallon this past winter.

FOUR QUALITY ENERGY MUTUAL FUNDS 1 YEAR PERFORMANCE

I wanted to list for you my subscriber the top performing equity energy funds with a 1 year performance. I have been bullish on the energy sector since the very first issue of my newsletter in September of 2009. I continue to remain very bullish on this sector of the equity markets moving forward. The small investor can participate in this sector through mutual fund ownership. It is important to always check with your investment professional's guidance as to the appropriateness of owning any mutual fund.

Mutual Fund Name	**Symbol**	**Recent Price**	**Total Assets**	**1 year performance**
1) Vanguard Energy Fund Morning Star Rating 4 Stars	VGENX	$72.98	$13.17 billion	21 percent
2) Fidelity Select Energy Morning Star Rating 4 Stars	FSENX	$57.86	$2.37 billion	22.53 percent
3) Black Rock Natural Resource Trust Fund Morning Star Rating 2 Stars	MDGRX	$73.16	$543.76 million	21.08 percent
4) Guinness Atkinson Global Energy Fund Morning Star Rating 3 Stars	GAGEX	$36.22	$84.88 million	36.22 percent

A LIST OF 14 PRIOR CONFLICTS AND MILITARY ACTION

Because geopolitical instability drives the price of oil higher, I am outlining below the 14 wars over the period of 1983 through 2011, a period of just 28 years. The Ukraine, to my simple way of thinking, represents the greatest risk of escalating with an adversary who will not back down when challenged. Is the Ukraine a defining moment time will answer that question for us all the key is to be prepared if it turns out to be exactly just that.

1) Grenada 1983
2) Libya 1986
3) Panama 1990
4) Gulf War 1991
5) Somalia 1992
6) Bosnia 1993
7) Haiti 1994
8) Kosovo 1998
9) Afghanistan 2001
10) Liberia 2003
11) Iraq 2003
12) Northwest Pakistan 2004
13) Yemen 2010
14) Libya 2011
15) Ukraine - Russia a major possibility 2014/2015

Watching the moving averages

The current 200 day moving average of price for oil is in the $100.27 area, and the 50 day moving average of prices is at the $101.61 level.

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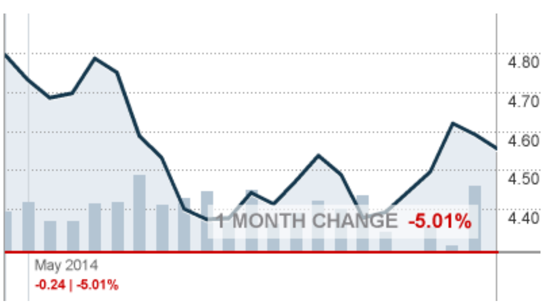
Natural Gas: Activity and influences from East, and the largest companies in this sector



RUSSIA SIGNS LONG-TERM NATURAL GAS DEAL WITH CHINA

Costs for development

A $400 billion deal between Russia and China to further develop new natural gas fields in Russia, will include the building of pipelines from Russia to China. The cost of building out this infrastructure will exceed $70 billion. The $400 billion price tag will include construction costs, transportation expenses, and other fees and costs. The finalized agreement between China and Russia had been under long-term negotiations for a period of 10 years. The final contracted price for the Russian natural gas had been a major obstacle to finalizing the agreement between the two countries.

A profound effect on prices

The 30 year contract between China and Russia is a historic moment that few have acknowledged at this point in time. It will alter the price of natural gas for not only China but all of Europe. The amount of natural gas that Russia will be supplying to China beginning in 2018 per the China National Petroleum web site is about 38 billion cubic meters. This is the largest contract in the history of the natural gas industry between the former USSR and the Russian Federation.

Must own sectors

I believe moving forward you must own four fortress quality primary asset classes: Food, water, crude oil, natural gas, and both gold and silver. I have written extensively in my newsletter over the last five years about the sectors of water, oil, gas and also about gold and silver. I am planning to write about the agricultural and food sectors in the July 2014 issue of my newsletter, and how best to participate in them.

1) The world, as I have often stated in this newsletter, is now rapidly changing and tomorrow will not be a repeat of yesterday. I believe whether people will acknowledge it or not, we are entering a period of rapid change.The Earth under our feet is now shifting and are now permanently unable to go back to the way things once were. The last time we witnessed a pure asset play in gold, oil, and gas was back in the 1970's. The investors who were participating in the markets at that time remember what an exciting and money making time it was. Inflation protect real assets were the ticket to making some serious money in the markets back then. I think we are now once again 40 years later on the cusp of this occurring again. It is still not too late to participate in these markets.

2) When we speak to exploration of natural gas, it remains a very risky venture. In fact the odds are about 8 to 1 against the exploration being successful in locating either natural gas or oil. In the oil and gas industry one of two things happen when we speak to exploration. The first is that the company drilling the exploratory well has an amazing oil or natural gas discovery. The second potential outcome is that the company drills what is known in the oil industry as a dry hole, which negatively impacts the company’s balance sheet.

THE 10 LARGEST NATURAL GAS DRILLING COMPANIES

I wanted to list again for my subscribers the names of the 10 largest natural gas drilling companies by average daily natural gas production. I even included their company stock symbol and average daily natural gas production to make it easy for you to look them up. I wanted to once again place in my subscriber hands the names of the quality companies doing business in the sector of natural gas. If you, as a subscriber, decide to participate in the sector of natural gas these are the quality companies to own. Please note that I have also outlined the highest quality natural gas mutual funds for consideration also as an additional way to participate in this market sector in a previous issue of this newsletter.

Company Name	Stock Symbol	Average Daily Natural Gas Production
1) Exxon/Mobil	XOM	3.9 billion cubic feet
2) Chesapeake Energy	CHK	2.6 billion cubic feet
3) Anadarko Petroleum	APC	2.4 billion cubic feet
4) Devon Energy	DVN	2.0 billion cubic feet
5) British Petroleum	BP	1.9 billion cubic feet
6) Encana Corporation	ECA	1.8 billion cubic feet
7) Conoco/Phillips	COP	1.6 billion cubic feet
8) Southwest Energy Corp	SWN	1.3 billion cubic feet
9) Chevron	CVX	1.3 billion cubic feet
10) Williams Energy	WMB	1.2 billion cubic feet

Even though we may witness crude oil prices stay above the long-term key psychological level at $100.00 dollars per barrel, the natural gas sector, which generally parallels oil, remains highly undervalued over the long-term.

Watching the moving averages

The current 200 day moving average of price is in the $4.22 area, and the 50 day moving average of prices is at the $4.54 level.

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Monetary Policy: The challenge of monetary policy normalization

HOW WILL THE FED NORMALIZE MONETARY POLICY?

The current debate at the Fed over how to normalize monetary policy is a source of anxiety in the markets worldwide. Everyone knows that the U.S. monetary policy cannot remain extremely accommodative indefinitely forever, and eventually must tighten or normalize monetary policy. The Fed doesn't want to compromise the markets in its attempt to begin reducing the historic level of liquidity it has injected into the system, therefore, an exit strategy has been widely discussed since 2010. With the tapering of quantitative easing that is already underway, the debate over normalizing monetary is now approaching its end. Normalization of monetary policy has two parts: Quantitative Easing (QE) accommodation is removed by returning the balance sheet to an ordinary size over time. Tapering QE has already begun but the second part; returning interest rates to levels associated with moderate expansion, has not. The Fed knows that complete normalization will take time and it is the most difficult part of the business cycle for a central bank. In its April minutes the central bank discussed, and is now implementing, various tools to accomplish its goal such as:

1) **The overnight reverse repo facility:** This is where the Fed begins the selling of assets held in the System Open Market Account.

2) **Modifying IOER policy:** IOER stands for interest on excess reserves. The Fed has been paying banks .25 percent interest on their excess reserves. The Fed is considering changing directions on this policy.

3) **Short-term interest rates:** The Fed is considering how to raise interest rates on loan contracts-or debt instruments such as Treasury bills, bank certificates of deposit or commercial paper-having maturities of less than one year. Often called money market rates.

Is the economy strong enough to normalize monetary policy?

Policymakers at the Fed have been divided over the extent of slack in labor markets and whether the unemployment rate is a good indicator in gauging the situation. Most of the members continued to view slack as high, and that the Fed had overstated the improvement in the job market. The Fed reaffirmed that there's no "imminent" inflation risk. Many believed that inflation should return to its target within the next few years while at the Fed were worried that the pickup in inflation would be more gradual than expected. Sluggishness in housing and the job market are also a huge impediment toward normalization. New mortgage applications are off 12 percent from last year and need to rise by 17 percent just match 2013 peak spring sales performance. High unemployment and low wages are putting the Fed's ability to mask a tightening labor market.

What must the Fed do to clear the path toward normalization?

A good place to start in preparing for normalization was echoed in testimony before Congress last month, when Federal Reserve chair Janet Yellen said there are two economic trends that Federal Reserve that she believes are "very disturbing." The first disturbing trend is long-term unemployment and the second is income inequality.

Long-term unemployment and what can be done about it

Approximately 35 percent of the total number of unemployed, or 3.5 million Americans, have been unemployed for six months or longer. Keep in mind that it is harder for those who have been out of the labor force the longest to find jobs. Yellen told the Senate Budget Committee that this is "a very disturbing trend, and something that we would like to be able to do something about." Many believe that the Fed is powerless to deal with the long-term unemployment figures, but I believe there is something the Fed can do. The Fed and the government should have targeted its stimulus measures to include greater access to capital for credit worthy businesses and individuals. It is well known that small business is the real engine of economic grown, and sadly vast share of the Fed's stimulus went to Wall Street.

Income inequality

Yellen told the Senate Budget Committee that, "We have seen a trend toward rising inequality in income and also in wealth. And I personally view this as a very disturbing trend that policymakers should be looking at and considering what is the appropriate response," (Please review the section on the economy in this issue of the newsletter).

What must the Fed do to help solve these problems?

The Fed has tried lowering interest rates and buying bonds to stimulate the economy. The Fed believes that by making loans cheaper for businesses and consumers through lowering interest rates it could boost the economy, including the housing market. What these policies did accomplish was a massive boost of the stock market. But a big problem is that too many of these companies that have benefitted from the Fed's accommodation have moved offshore. Thus the job creation across a variety of industries has been done overseas. Sadly it is the low-income, lesser educated part of the population, which suffers the most from long-term unemployment and inequality. This group is the least likely to own stocks or be capable of buying a home, so low interest rates don't help the poor as much as the middle class and wealthy. Wages must also rise at a much faster rate. Since the recession, worker compensation has increased an average of 2 percent per year, which is very low by historical standards. The Fed do more to promote a stronger job market, higher wages, and help for domestic job creators. These are the steps that will begin to translate into stronger economic growth and a more sustainable recovery.

In conclusion

To put it mildly, there is still tepid uncertainty about whether all of the thresholds for normalization are fully in place. To be blunt, the Fed knows it cannot accelerate the return to normal monetary policy because the world is not ready for higher interest rates and the markets are totally addicted to the Fed's easy money. We are seeing major volatility in bonds all over the world. Investors run for the hills every time the markets think the Fed is about to end its accommodation. In the final analysis, a return to normalization will be anything but normal. That's why you need the information in this newsletter. Use it with the close help of your investment professional's guidance to plan for your financial security.

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SUBSCRIBER BONUS: *I will be sending out to our subscribers, with the compliments of Catherine Austin Fitts, a sample of her very informative newsletter "The Solari Report". The web site of the Solari Report is Solari.com. Catherine will also be sharing the latest issue of my newsletter "Straight Money Analysis" with her subscribers.*

Remember, these are challenging times so don't forget to tell your family and friends to get their own subscription to the *"Straight Money Analysis"* newsletter. If you like this newsletter, tell your friends and family through Twitter and Facebook

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