Answering Your Questions

TREASURYS HEAD TO RECORD LOWS
GOLD BREAKS ABOVE $1800 & POLITICIANS REFUSE TO YIELD

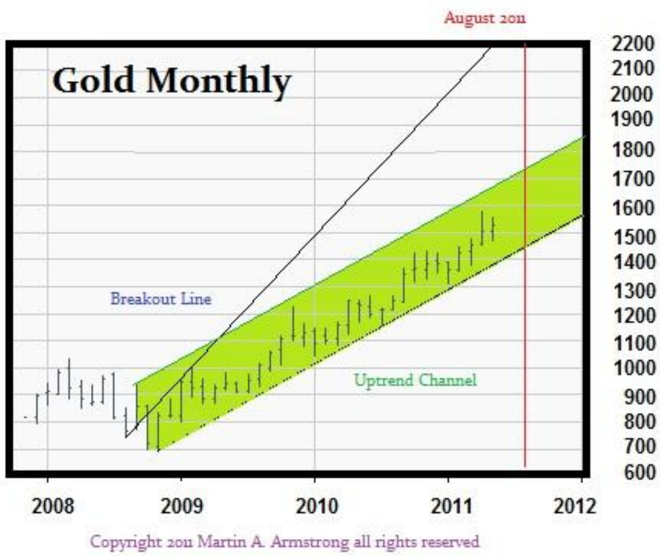
The European meeting in Paris has proven to be a huge disappointment promising more coordination rather than dealing with the very issue of restructuring the debt. Despite German Chancellor Angela Merkel and French President Nicolas Sarkozy announcing proposals Tuesday to boost the governance of the euro zone and reaffirmed their commitment to defending the euro, their dismissal of the idea of issuing euro-zone bonds which has been gaining attention recently, their idea of introducing a financial tax on transactions in September illustrates why politicians should be **PROHIBITED** from dealing with the economy. As I said before, the two words political-economy should have been divorced the first moment they met. If I bought a hospital and run the whole join, that does not qualify me to be the top brain surgeon. Sorry, but the same is true of politicians.

Merkel says there is no magic wand. Sorry – there is! She doesn't understand economics and the leaders around the world had better stop with the masquerade party. Had Europe consolidated **ALL** outstanding debt (***not just debt going forward***) converting it to a single **Euro-Bond** and eliminating the use of trading bonds as an alternative to the ability to the inability to trade currencies, then Europe has all but guaranteed the collapse of the Euro. A little trading experience might just open her eyes. Since there is no drachma to short if I think the country is in trouble then I short the bonds that will be directly tied to Greece. Hello! Does anyone remember the word **DERIVATIVE**? I did not want to publish this because it seems my readership is in the hundreds of thousands now. But it doesn't matter anymore. Until the politicians wake up, we are headed for a lot more trouble.

I wrote in 1997 (***which I will republish***) that this Euro structure would result in transferring the currency volatility trading character to the bond markets and this is precisely what has taken place. You can trade the Greek, Spanish, Italian bonds as a ***derivative*** of the currency that would have otherwise existed. Into this pool of volatility, the ECB wishes to create a QE2 version of buying distressed bonds of member states. That is precise how Japan committed economic suicide by wasting its financial resources on desperately trying to support a market. No matter who it is they cannot make a bull market out of a bear market with money. The whole world will trade against you! Germany's obsession with hyperinflation has made them fear consolidating the debt. What they ignore, however, is they are still tied to the 17 member states by the Euro. You might as well split and reestablish the Deutsche Mark taking your marbles and just go home. They are acting like France in the 1930s who refused to abandon the gold standard and suffered the consequences.

This degree of uncertainty is tearing the world apart. The share markets are still vulnerable to a retest of the 2009 lows since we have **NOT** achieved key buy signals just yet confirming a breakout warning we must retest support before we see new highs. Eventually, stocks will explode to the upside once the **BIG** money is forced to shift from bonds to equity as was the case between 1932 and 1937. This is why gold remains resilient, but at the same time, we have US Treasurys headed to new lows because there is no place to park money at this time. The fanatic gold bulls will scream at that statement for they always just the world as if it were their personal account. They cast gold as the savior and everything else must fall. The still claim only **GOLD** is **MONEY**, but fail to understand that money is just a medium of exchange to ease barter, which the core of everything. During the hyperinflation of Germany, it was **NOT** just gold that retained value, foreign currency, art, coins and a variety of movable tangible assets. That is how much of the rare art, coins, stamps, and antiques made their way to the USA. Refugees brought them to the USA and resold them to convert back to dollars to facilitate commerce here. Gold's rise will not be alone because it simply cannot absorb **ALL** wealth in the world and you will **NEVER** get everyone to agree anyway. Just as there are people who believe **ONLY** in gold, there are people who **HATE** gold for it is contrary to Socialism and Communism. This is like the Republicans and Democrats where neither side will ever convince the core supporters they are and should shift allegiance. Of course gold will rise and it is less cumbersome than diamonds, art or antiques. But those things will still rise as well.

The one thing I have learned over the years is that the markets are **NEVER** wrong – only analysts. The S&P Downgrade has not been followed by the other rating agencies who have reaffirmed the AAA rating and the markets are showing that S&P was outright wrong. This is a ***distinct difference*** from the **Sovereign Debt Crisis** for the S&P did not downgrade for that reason, so do not confuse long-term with the immediate trend. The **FIRST** crisis is Europe – **NOT** the United States! The rumor on the Hill was that S&P was under investigation for the mortgage crisis and by downgrading the US they would be able to claim it was retaliation for the downgrade if eventually charged. They may have shot themselves in the foot on this one.



The US Treasurys are headed to record lows while gold is going up above $1800 coming close to this week's projected resistance at 1860-1900 followed by 2050-60, which moves up to 1910-1960 followed by 2085-2105 for next week. These are **NORMAL** projections and still not a **PHASE TRANSITION** type of move just yet. Those projections stand at 2400-2600 level this month and become possible should gold rise above 2100. Support in gold is now beginning to form at 1730 and holding that on a daily closing basis will keep gold in a bullish position. A closing above 1818 today (***which was achieved***), will warn that gold can still press higher into tomorrow. A closing tomorrow for the week above 1900 would signal an explosive run next week.

Gold and US Treasurys trading together illustrate the point that the **BIG** money has not begun to move and is still parking. Corporations are at record highs with over $2 trillion in cash holdings also parking in Treasurys fearful of investing with the future so uncertain. Those who try to predict the future with fundamentals get their head handed to them without exception because they become fixated largely on a couple of issues that are more often than not too domestic. Lacking worldly experience, they become just deer in headlights.

A closing tomorrow on the Dow **BELOW** 10906 will warn that next week we may again drop sharply. Even a closing **BELOW** 11280 will keep the Dow in a weak position (***which was achieved today***). There is support down to 10320. However, a monthly closing **BELOW** that level will then point to a retest of the of the 2009 low with support picking up again at the 6952 level. Those who keep praying for a 90% decline as it was in 1929-1932, fail to realize **HOW** that took place and **WHY**. It is **NOT** the private sector that is the problem – it is the public sector. Some stocks are paying great dividends that you cannot obtain in bonds, or any that you might think of buying. So it is just not as plain and simple as some portray buying gold and nothing else. The time is not ready for a stock market recovery just yet. That is certainly true of the economy as well. We have the collapse of **SOCIALISM** and that means that unemployment will rise, but largely from the collapse in government employment at all echelons right down to the local municipal level. The longer politicians refuse to reform, the worse this will get.