



Pure Leadership
**PROSPER WITH
YOUR SAVINGS**

Jas Malcolm

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by Jas Malcolm

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Given that I've predicted a failure of the financial markets, it is common for people to ask me what they should do regarding today's markets. Of course I'm not a market professional and cannot offer advice. What I can do is tell you what I'm doing with my money and my reasoning.

I submit that everyone is entitled to their accumulated savings and earnings. Your savings are an aspect of you being in the flow of energy. The flow of creation. Being grateful for those savings keeps you in that flow, keeps good things coming your way, however, what if those savings are wrested from you?

In today's financial system it's difficult to plan on what your savings will buy you in the future. Just ask all those who thought they saved enough to retire by anticipating a 6 or 7 % interest on their savings only to find that interest rates today approach zero. Why is that?

In a world where governments, large hedge funds, investment bank derivative players and banks continue to 'play' the markets for political outcomes, it's probably fair to say that we don't have true markets any longer. By that I mean we don't have markets that rationally respond to normal supply and demand fundamentals. So, how do you maturely plan what to do with your capital (savings)?

The Value of a Dollar

Please reflect upon the interest you receive on your bank deposits. Virtually zero, but in effect negative, which I'll explain in a moment. The United States government is, on paper, bankrupt. They spend far more money than they receive from taxes. I'm not suggesting the United States as a country doesn't have a great deal of wealth behind the scenes, however, I am suggesting that the government has abused their people's savings.

Today, when the U.S. government borrows money they pay only a nominal interest rate to their lenders. So, if you were to purchase a treasury bill you'd receive pretty much zero interest (0.05 of 1% as of February 3, 2012). If you were to lend money to the US government by way of purchasing a two year government bond you'd receive less than 1% in interest (0.775 of 1% as of last Feb 3rd), for a 10 year government bond you'd receive today a yield of 1.92%. If you were to lend money to the US government for 30 years by purchasing a 30 year government bond you'd receive 3.12%. (source, CNN as of close on February 4)

Now I'm sure you're aware that on the interest amounts you'd receive, you'll be charged taxes (at your marginal rate) so you'd actually receive only 50-70% of the amounts I've quoted.

What few people reflect upon is the fact that as the government continues to print money they are depreciating their currency. Depreciation of a currency ("inflation" – interesting choice of words) means the amount of goods you can purchase for your dollars goes down every year. By how much?

Here's where the great debate commences.

Government's print inflation figures that seem relatively benign. They espouse 'motherhood' policies and targets to manage inflation, in keeping to annual rates of (e.g) 2% (Bernanke's newly announced target). If you start with the assumption that the government tells you the truth and inflation is only 2% and you're holding your savings in a bank account paying less than 1%, or you're holding government treasury bills paying you 0.05 of 1%, then you can see that you're losing purchasing power because the dollars you've saved are depreciating faster than the after tax interest you receive. For example, .05% interest - 2% currency depreciation (inflation) = - 1.95%. You're losing ground my friend.

Still, based upon these figures you might still choose to hold cash because you feel it is 'safe'. In my book [*Who's in Charge of the Powerful You and Why that's Changing*](#), I submit that the government is not telling you the truth about the rate at which your money is being depreciated (i.e. inflated away). Here's a review:

- The government does not include food or energy in their inflation index. This means that the rising cost of food is not calculated into their inflation rate, nor is the cost of fuel. So if you've ever been to a grocery store (smile), you know that the meat you're buying is rising at an annual rate

greater than the 2% government reported inflation rate. Therefore, you know that your money is depreciating faster than the government is telling you.

- The government uses hedonic indicators to 'price' in a notional quality difference in the consumer goods portion of the Consumer Price Index, enabling them to artificially 'reduce' their reported inflation rate.

This means that your government is not telling you the truth about the rate at which your savings are being depreciated by them each and every year.

Smoke and Mirrors: Inflation, Unemployment and GDP

John Williams is a chap in the U.S. who tracks these government shenanigans. His organization, www.shadowstats.com, tells you what the rate of inflation would be if the government calculated it like they did 20 years ago, (i.e. more honestly). What are inflation rates in the United States today? North of 6%. This correlates much better with Warren Buffet's observation that the U.S. Dollar has lost 85% of its purchasing power since 1985. So if you subtract 6% depreciation (inflation) from that less than 1% interest rate on your savings, today you're really losing 6% per annum. So although Buffet and I see many things differently we both agree that currency and bonds is not a way to preserve wealth.

John also tracks the unemployment rate the way it was historically calculated. The U.S. government has just made a big deal about the unemployment rate falling to 8.3%. True or false? The U.S. calculates unemployment by dropping people out of the calculation who've given up searching for a job, which is currently running at 1,000,000 people a month, and of course, they carry the fiction of the Birth/Death rate to make up jobs. John calculates that the real U.S. unemployment rate is 23%. Even the New York Federal Reserve has stated U.S. unemployment is 19%. So, it appears that the U.S. government is challenged when it comes to telling the truth.

Please reflect for a moment. The U.S. government has just projected another 1 trillion dollar deficit for the upcoming year – that is four consecutive years of trillion dollar deficits.

The nightly news is telling you that with the European Debt crisis everyone is rushing into U.S. dollars as a 'safe haven'. Now, how can an economy that generates trillion dollar deficits, greater than 6% inflation and, 23% unemployment, be a safe haven? It can't be because of their rising real estate market, because that market peaked in 2006 and real estate prices have fallen more than 32% since then (as per [the Case Shiller Index](#)).

There are now millions of home owners with negative equity in their home. As for homes that are owned by the banks, some are suggesting that this 'shadow inventory' is as many as 8-10,000,000 units (Laurie Goodman of Amherst Securities). How can there be a short term recovery in real estate prices when Banks currently hold 10,000,000 units that will have to be liquidated?

Despite all of this we're told that the U.S. economy is not shrinking, but growing. We're told that the U.S. is no longer in a recession. Who tells us that? The government.

Allow me to muse openly about the reportedly growing U.S. Gross National Product. In the last quarter of 2011 it was reported that the U.S. economy grew 3.2% (annualized), but if the real inflation rate is 6% (annualized), doesn't that mean the real economy is shrinking? Yes it does. But that's not the half of it.

Michael Shedlock weighs in with an explanation. He indicates that just as the U.S. government plays games with inflation numbers, (which abuses government retirees whose pensions are tied to inflation and those receiving Social Security) they similarly play games with GDP calculations. Shedlock suggests that between hedonic adjustments and imputations that up to [\\$3.5 trillion of US GDP](#) is 'manufactured'

from hedonic and imputation accounting. My favorite part is where Shedlock identifies that GDP is increased to reflect an 'imputed' amount of revenue equal to home owners paying rent to themselves of some \$158 billion! The U.S. is the only country that uses hedonic adjustments and imputations in determining GDP. So, do I think the U.S. is a safe haven? Not really.

You might argue that the low interest rates you're receiving on U.S. government bonds is evidence that the U.S. banking system is a 'relative' safe haven. I'd suggest that if you believe that you don't understand how the low interest rates are being created. Ask yourself a simple question about the law of supply and demand. Low interest rates mean the demand for U.S. debt exceeds the supply. In this situation the government issues debt at low interest rates indicating that the United States is considered to be a good manager of their economy. How can you reconcile that notion with trillion dollar annual deficits, 23% of the people being unemployed, a 6% inflation rate, a 'real' shrinking economy, fabricated GDP and a real estate market in a state of disaster? You can't. The low interest rates on U.S. government issued debt is not the result of good management. It is a result of the derivative players.

The low interest rates in the bond market are being created by hedge funds making huge levered bets 'long' the dollar. They are betting by going long the US dollar. This drives down the interest rate and increases the redemption value of the existing bonds they hold. Although this has been a levered bet that has paid these hedge funds well for many years now, it's a bet that has to be increased each and every month to work. For this reason interest rate derivatives are now approaching a quadrillion dollars. Yes, you read that number correctly.

The derivative players, such as JP Morgan and Goldman Sachs and the like, would not take this risk for their own account, so I suggest they have an agreement with the U.S. government that if the bet goes badly the U.S. government will take it off their hands. As of 2010, when I updated [*Who's in Control of the Powerful You*](#), JP Morgan was sporting a trillion dollars of off balance sheet interest rate derivatives. I suggest the insolvent banking system is doing the same thing. They're taking free loans from the Federal Reserve and levering it into investments in government paper. If interest rates were to rise the governments and banks would financially explode. MF Global had levered their European bond bet 100 to 1 and when Spain and Italian bond yields rose, well MF Global did explode.

So if the United States is not a safe haven, how do I explain the recent strengthening of the U.S. dollar? Most all derivative contracts and credit defaults swaps are denominated in U.S. dollars, so when there are defaults there are huge demands made to purchase U.S. dollars to make good on the contract. There's been a lot of defaults lately. So the strength in the US dollar, in part, is because the system is failing. Secondly there's the oil market, the largest market in the world. It's denominated in U.S. dollars. Therefore, the movement of oil creates huge demand for U.S. dollars. Iraq was punished (i.e. invaded) for suggesting they would sell their oil for something other than U.S. dollars, (the gold dinar in this case). There's also the fact that exporting countries are buying the U.S. dollar in order to depreciate the value of their own currency and maintain their export competitive advantage. So do not be fooled into thinking the U.S. dollar is strong because of good fundamentals or good government. If you look back to 1980 you'll see that the U.S. dollar is in a long term bear market.

So, with all of this going on how do you preserve your hard earned savings? Some suggest you purchase the currency of a better managed government. Here's the challenge though. Governments the world over are continuing to conduct themselves in an irresponsible manner by depreciating their currencies in an endeavor to keep their insolvent banking systems afloat, create jobs, and sustain exports. It is a worldwide strategy of 'begging thy neighbor'.

The banking systems of the world are insolvent and it's in those very banks that you keep your hard earned savings. If you listen to the television you'll be led to believe that the Canadian banks are in 'good shape'. I would agree they're in better shape than the money center banks in the United States and

Europe, but that, again, is damning by faint praise. You see, if the large banks of the United States and Europe were to mark their assets to market they would be shown to be bankrupt. So with an accounting sleight of hand, insolvent banks are able to show book 'profits' to the public. I would not be sanguine about the Canadian banks. I've published figures about their credit default swaps in Edition 3 of [Who's in Control](#). The swaps were orders of magnitude greater than the capital of the Canadian banks. Although I was reflecting the numbers in 2008, I suspect that these Canadian banks aren't as represented. Do your homework, it's your savings.

So, allow me to sum up.

1. The interest rate you're receiving on your hard earned savings is de-minimis.
2. When you calculate taxes and inflation you're losing purchasing power on all the savings you've worked your whole life to save, and,
3. you're storing your savings with an institution that could go bankrupt or declare a 'bank holiday'. For those of you not familiar with the lingo, a 'bank holiday' is not much of a holiday for you and me. A 'bank holiday' is when the bank tells you that despite the size of your savings evidenced by your passbook, you're only entitled to withdraw \$200 per month. That's right, in those circumstances your savings aren't really yours, instead they're treated as being those of the bank. If you think that there can't be a bank run in today's sophisticated world you might want to Google the history of Northern Rock in the United Kingdom in 2008, or talk to someone who went to Wells Fargo ATM machines and couldn't withdraw funds, or who lived through the bank meltdowns in Argentina or Russia.

In investing 'parlance' what we have today is commonly referred to as 'negative interest rates'. For example, if you receive 1% interest on your savings at the bank but the inflation rate is 6% then your true interest rate is 1% - 6% which is -5%, (pre-tax, it is not quite as good post tax – smile).

I'm taking a fair amount of time to make my point but I really want the reader to understand that what they've saved is going down in value. You're becoming poorer, each and every day you keep your money in the banking system. So what is the alternative?

Why to Consider Precious Metals

[Negative interest rates have always been good for precious metals](#) because precious metals are a form of currency. Did you know that gold is not traded on 'commodity' desks but, instead, on 'currency' desks? So gold and silver compete with US dollars, Canadian dollars, Swiss Francs and British Pounds etc. as a vehicle for your savings.

James Turk has done a great job of creating a table that tracks how the currencies are faring relative to gold and silver. What follows is an older version of his table from an article printed on his website:

Gold % Annual Change

	USD	AUD	CAD	CNY	EUR	INR	JPY	CHF	GBP
2001	2.5%	11.3%	8.8%	2.5%	8.1%	5.8%	17.4%	5.0%	5.4%
2002	24.7%	13.5%	23.7%	24.8%	5.9%	24.0%	13.0%	3.9%	12.7%
2003	19.6%	-10.5%	-2.2%	19.5%	-0.5%	13.5%	7.9%	7.0%	7.9%
2004	5.2%	1.4%	-2.0%	5.2%	-2.1%	-0.0%	0.9%	-3.0%	-2.0%
2005	18.2%	25.6%	14.5%	15.2%	35.1%	22.8%	35.7%	36.2%	31.8%
2006	22.8%	14.4%	22.8%	18.8%	10.2%	20.5%	24.0%	13.9%	7.8%
2007	31.4%	18.6%	10.4%	23.0%	17.9%	17.5%	24.7%	21.5%	29.2%
2008	5.8%	32.5%	32.4%	-1.1%	11.9%	30.4%	-14.9%	0.2%	44.3%
Average	16.3%	13.3%	13.6%	13.5%	10.8%	16.8%	13.6%	10.6%	17.1%
(6 mos.) 30Jun09	4.9%	-9.1%	-0.3%	5.0%	4.1%	3.1%	11.3%	6.8%	-6.8%

There are some important points to make from the above table.

- Gold has appreciated against all of the world's currencies, or in other words, the purchasing power of all the world's currencies have depreciated against gold's purchasing power. National currencies are not a safe haven.
- Gold is often accused of being volatile. In fact, in a world of fiat currencies backed by nothing but government promises, the volatility actually comes from these currencies bobbing up-and-down relative to each other. Note the consistency of the depreciation of these currencies against gold, which appreciated from 10.6% to 17.1% per annum.
- The important point is that all national currencies are sinking relative to gold, but they are sinking at different rates. In the above table, the Swiss franc is the best currency (losing the least amount of purchasing power), and the British pound is the worst (losing purchasing power the fastest).

Thus, gold best meets the needs for saving money. Physical gold does not have counter-party risk, and gold preserves purchasing power over long periods of time."

Again, the table presented and accompanying bullet points are those of James Turk's which you can find at his website: www.fgmr.com

In a presentation that James gave at the Cambridge Conference in Vancouver in January of this year he updated his table. It now includes 9 currencies tracked for 11 years and shows that annually the average amount these currencies have lost relative to gold is:

US AUD CAD CNY EUR INR JPY CHF GBP

17.7% 11.6% 13.7% 14.8% 14.5% 19% 13.9% 12.1% 17.7%

To put this into some sort of perspective, if you are in the 50% tax bracket and if we assume John William's inflation rate of 6%, in order to stay even with gold your savings account would have to be paying you annual interest of 47%: (47% x .50 taxes = 23.50% – 6% inflation = 17.50% – 17.7% currency depreciation = -0.02). Now, the last time I looked my bank was not paying me 47% annual interest on my savings account. How much interest are you receiving on your savings?

James also presented a table showing that silver actually presented even better annual appreciation vis a vis the 9 currencies.

US AUD CAD CNY EUR INR JPY CHF GBP

21.2% 13.4% 16% 18.4% 18.4% 21.3% 17.8% 15.5% 20.2%

My reasoning is simple.

Governments are losing their long term gambit to control everyone through the use of their fiat money system. The system has become mathematically unsustainable. So, you can keep your savings inside this system and surf the waves of announcements on European restructuring to be followed by American restructuring, followed by the next country's restructuring, all with a view to staying 'safe' while actually losing 15%+ of the value of your savings annually (relative to gold or silver) or, you can take your money out of the casino. Holding precious metals is holding your savings outside of the existing monetary system.

The Silver Bullet

I'm not an investment advisor and what I'm reviewing here is not investment advice. It is simply me recounting my reasoning about what I'm doing with my own money. This simple line of reasoning motivated me to buy gold and silver bullion in 1998. I've also purchased, from time to time, gold and silver shares for additional 'risk to reward' investing and held 'cash' from time to time in the banking system. For the longest time I held my liquid cash position in New Zealand because I felt their currency would appreciate vis a vis the Canadian dollar (which it did), and they did have an option of delivering physical bonds (versus the computer blip bonds of our banks), however ... I've now decided that even holding 'cash liquidity' makes less sense given how far the banking system has slipped. As our banks and governments step onto the banana peel of their last hurrah, I've decided to seek out a liquid silver trading vehicle to protect my liquid cash. This means I'll convert my cash into a silver trading vehicle and only take it back into cash when I desire to spend it. Silver is, in effect, my currency of choice.

I'm choosing a silver vehicle over a gold vehicle for several reasons. Silver has been a currency in far more countries than gold over the past thousands of years. Only in North America do we talk about it as an "industrial metal". In fact, the United States constitution states that silver is the currency, not gold, and certainly not the paper that the government has substituted as currency (legal arguments offered in my book). Secondly, silver today is trading at a ratio to gold of 51:1 (Gold \$1720/silver \$33.40). Silver occurs in the Earth's crust in a ratio to gold of 7:1 and has, historically traded at a ratio of 15:1. This suggests that if silver revalues to its traditional relationship with gold, silver has more appreciation potential than gold at this time. Thirdly, as I stated in "2012: Moving Towards Empowerment", I feel the United States will issue a new currency backed by silver. I believe it will choose silver because it's in their original constitution and

because I believe they have no gold in Fort Knox. The world is growing impatient with the largesse of a United States government which is long on rhetoric but short on responsibility. Fourthly, the insolvent governments may or may not seize gold bullion claiming some sort of eminent domain, but I don't believe they can make the same seizure claims against silver.

U.S. Dollars no Longer Accepted

Recently the United States, in more of its fear based mantra, is taking steps to embargo the oil of Iran. India and China have indicated they'll not participate. India has stated they will purchase oil from Iran with gold. China will pay for their oil with Chinese Yuan(¥). Neither will deal in U.S. dollars.

This latest development is not the first but only the latest reaction of countries suggesting they'll pay for commodities with something other than U.S. dollars. China has made several bi-lateral agreements with countries to settle trade in their own currencies. Even British Retailers have taken to settling purchases with China in Yuan. Russia too has entered into bilateral trade agreements circumventing the U.S. dollar. We are nearing the point in time where I see the failure of both the Euro and the United States dollar.

I suggest my reader reflect upon these matters. The United States has abused its citizenry for a long period of time through the massive devaluation of their currency. They do this in order that they can make the decisions the government wants, rather than being responsible and making the hard choices. The citizenry living in the United States feels they have no choices. Countries such as China, Japan and Russia can no longer allow the United States to continually abuse their U.S. reserve currency through running massive deficits and money printing (called quantitative easing). These countries have enormous amounts of U.S. currency and if you allow the U.S. to de-value that currency you are, in effect, allowing the United States to impoverish your own people. The currency war is involving more and more countries looking to transact without using the U.S. currency. I use the example of my trip to China last year when our guides asked that we not tip them with U.S. dollars.

This Iran embargo is not about nuclear, it is about Iran looking to sell their oil for a currency other than the U.S. dollar. There is a sea change going on in the world and you could wake up one morning to find some major announcements have been made that will impact your life's savings.

Greenbacks turn Silver

The U.S. mandarins see this as well. Nothing I'm saying should be taken to suggest the United States isn't populated with very bright people who are aware the world at large is rejecting their currency. This is why they've been preparing a new currency for years. I suggest they'll back it with silver and when they announce this, the price of silver is going up. How high? I really don't know, but then I don't have to. I simply am outside of a government and derivative and bank manipulated system.

When I say the Euro will fail, that means we will see many bank failures and I suspect those failures will spread to America. The crisis of 2008 will likely be revisited this year. When I wrote the first edition of [*Who's in Control*](#) in 2008 I told people we'd have a financial crisis in 2008. In the latest edition I explain that in the subsequent years the economy will start to look like it's stabilized, and then we'll experience another downdraft. I think this year is the next crisis. The question is whether the crisis happens and then the new U.S. currency is launched, or whether the U.S launches the new currency to pre-empt, to some degree, their fate within the crisis. You may have noted how the European crisis has allowed the replacement of two government leaders with non-elected persons (Italy and Greece). Isn't this fascinating?

I can assure you it is more fascinating to watch these machinations if your life savings aren't tied up in them. In 2012 the governments of the world have 7.6 trillion dollars of bonds to roll over. Imagine, 7.6

trillion of bonds bearing almost zero return offered by bankrupt entities. Who is going to buy all of this debt of bankrupt entities? Usually pension funds purchase government bonds but as Don Coxe points out the actuarial model for pension funds seeks a 7% return annually. This would mean that most pension funds are currently underfunded. Well they won't make up that lost ground by purchasing a 1% government bond. This 7.6 trillion dollars will also crowd out private financing needed to build productive assets. This should be interesting to watch.

Watching from the Sidelines

In the face of that, what liquid silver trading vehicle am I choosing? You can never go wrong by owning the metal itself, whether in the form of jewelry or silverware or coins or bars. Storing large amounts of silver is a challenge because of its bulk, however James Turk has a solution with his www.goldmoney.com which I use. It enables you to purchase metals and select an audited vault in any of London, Switzerland or Hong Kong with the click of your computer mouse. You pay a commission going in but not out, so this provides you a very liquid vehicle.

Also, Eric Sprott provides a silver bullion trust (PHS.U), (in New York PSLV). Please note that it does trade at a premium over asset value. I suggest it trades at a premium because the business community knows that the silver is there. It is less liquid than I'd like as it trades like a stock so there is 'bid/ask' risk on entering and exiting. What I really like about the Sprott Trust though is you can take possession if you wish (assuming you meet their 10,000 oz minimum).

I personally would not purchase Exchange-traded Funds (ETF's) unless I was certain the silver was there. These ETF vehicles are often run by the very companies, such as JP Morgan and Barclays, that I see as the agents to keep the prices low. JP Morgan is the subject of [a class action lawsuit](#) for manipulating the price of silver. If you read the constituting documents of these ETF funds you'll see that the manager is allowed to short the metal, hold less than dollar for dollar silver/gold, and, the managers can even short the stock of the fund they manage, etc. Note that SLV (the silver bullion ETF in custody of JP Morgan) traded 100% of its market cap in May 2011 when the price was falling. Tell me how can that happen and not be part of a derived strategy? So ETF's, for me, are to be avoided as they are instruments to manage the price of gold and silver lower, just as the ETF for oil has been used to manage the price of oil higher.

For a liquid silver vehicle for Canadians there's Sprott's Silver Bullion Mutual Fund, although it has a 60 day hold. I use Bernie DeGroot at Canaccord (403-508-3849) to navigate these waters for me. There are some management fees with Sprott's funds that you'll want to understand, if you choose to purchase. . In the United States I refer you to my good friend Bill Laggner who runs the Bearing Asset Fund in Dallas (214-731-7190). Please, if you take action, do your homework

For a liquid trading solution one could purchase the shares of the streaming company Silver Wheaton. The only challenge here is that a streaming vehicle has the right to silver but is not holding the silver itself. It trades at a large forward multiple, so do your homework and know what you're buying. As an aside, I believe the streaming and mining companies would create amazingly good investment vehicles if they started to stock pile their gold and silver. Then they would be a producer and precious metal fund, all in one.

Now, in my [2011 year end letter \(posted on our blog\)](#) I warned people about purchasing shares in the market. I've repeatedly called these markets 'casinos'. There's a lot of government participation in these markets, IMO. All markets - stocks and bonds. Despite this I do from time to time speculate in gold and silver mining stocks. I seldom buy 'mainstream' stocks and caution people that are educated by investment advisors that you must 'own bank stocks.' Last year saw the major banks (US and Europe) down on average around 40%.

The reason a person buys gold and silver mining stocks is for the additional leverage over the metal itself.

Early in this bull market (from 2000 – 2004) there were great gains in precious metal stocks because if the metal went up 100% in price, the stocks went up 400% in price. The next seven years of the bull market have not evidenced these same principles. In fact, if you look at the mining stock sector you'll see that its gains over the past 11 years have fallen below the gain in the prices of the metals themselves. Therefore, I continue to shrink the number of stocks I own, with a tendency to own more metals [the gold and or silver bullion] and less stocks. The other factor to consider if you buy stock is that if we have a market crash a-la 2008, the liquidity pulled from these stocks will cause the mining shares to fall drastically even if the metal prices stay firm or rise. I'm expecting such a calamity this year. Perhaps as early as March and certainly not later than September. In 1929 there was a decoupling of the gold stocks from the general market but in today's world I think there are too many big powerful vested interests dedicated to not allowing that to happen.

I re-iterate, I'm feeling we'll have a 2008 like crash this year. I'm therefore leery to be holding large stock positions. It occurs to me that there are so many good purchases of mining stocks available at this moment in time, it must be because people aren't buying them. The other thing to remember about gold and silver mining stocks is that there is tremendous country risk. In Ecuador, Kinross has agreed to a windfall profit tax that would see the country receive 70% of the increase in the price of gold over today's price. It is rumored that the United States has also drafted similar type of legislation for implementation in 2013. The insolvent governments of the world are supporting the insolvent banks of the world, which, in turn, are trying to prop up the insolvent governments. The governments need money, they're desperate, and it's very hard to move a profitable mine (smile). With all the ecology and social pressures on mining companies, future production is apt to shrink, which it has these last several years, making the above ground metal even more valuable. So I am voting with my feet and continuing to shrink my precious metal stock investments and increase my investment in the bullion. Specifically, silver bullion.

Scarcity of Real Money

When Sprott originally set up their silver trust it took them 3 months to actually receive the metal they'd bought. They've just expanded their trust by \$350,000,000. It will be interesting to see how long it takes for them to get delivery of the silver. The President of Anglo Gold Ashanti recently stated that over the past 18 months he has received increasing requests to [sell his gold directly to investors](#). In effect it is increasingly difficult to achieve delivery of precious metals. This suggests there is a supply demand crunch.

After MF Global clients were left unprotected by the Chicago Mercantile Exchange, the number of companies using the exchange for hedging with futures is falling. Jim Willie stated that the president of the exchange couldn't protect the segregated accounts of MF Global clients because he would be setting a \$180 billion dollar precedent. Hmmm, sounds like some big shoes to fall. Similarly, Jim Willie advises some companies have now had their compliance divisions ban them from purchasing contracts on the COMEX. Exchanges are in danger of failing. Frank Veneroso said that in 1929 sometimes stocks went no bid for months. This is big stuff folks.

In 2008 I told my readers that the financial system would collapse and governments would as well. Welcome to my world. The key to what I wrote though was that these collapses would be a good thing in the evolution of humanity to Homo Luminous. None of this means, however, that you have to expose yourself to a falling financial bus.

The Failure of the World Financial System is about Freedom

So the next iteration of the failure of the world financial system happens this year. If you're out of the markets and holding silver bullion you can grow prosperous. The really good news is that the United States is actually about to re-gain a true leadership position in the world as part of this failure. The reason why is because they will be the first country to back their new currency with silver, IMO. In March of 2011 Utah legalized the use of precious metals in commerce, and [13 States have now proposed similar legislation](#) on the books, . This tells you the financial crises at the state level is severe and they do not see the U.S. dollar as a solution. So, why this is important when this movement moves to the federal level is because it is a return to the U.S. Constitution. The Constitution of the United States is the high water mark of governing principles. The United States government and courts have eroded it for years but that is about to reverse itself. With a return to a currency backed by a precious metal *government will shrink and be held responsible*, and, 'we the people' will take back sovereignty over their own lives. This is what the 'occupy' movements foretell. The people of the United States are about to stand up like those in Libya and Egypt and take back their country. The lawsuit of 300,000 organic farmers against the tyrannical Monsanto is further evidence of this very significant shift in energy (see www.osgata.org). The United States cannot become proud and free again if they adhere to the nonsensical position of today's economists who attribute GDP growth to consumption. No responsible independent person prides themselves on consumption. Life is not about consumption, it is about action. The United States will rise by re-adopting a leading position in manufacturing. That leading position will be in the area of nanotechnology, however, that will be the subject of another blog series.

In my books I discussed the imminent demise of the world financial system, governments, western medicine, organized religion and the education system. A very fast way to re-vamp government is to re-vamp the financial system by returning to a silver backed currency. Once one country does it, all countries must follow. There are fervent opinions about gold and silver. I suggest much of the debate fails to articulate the most important aspect of gold and silver as currencies – these metals are all about freedom. So what you are going to experience is not a collapse of the financial system and government as you know it, but rather you are going to experience the freeing of humanity.

Above I mentioned that JP Morgan have (and HSBC had) been sued for manipulating the price of silver. Even one commissioner of the COMEX, Bart Chilton, has publicly admitted that commercial traders (i.e. large banks) have fraudulently [manipulated the price of silver](#).

I think that GATA and Ted Butler and others that have revealed these truths are to be supported and applauded. I feel the action of JP Morgan has been reprehensible, however, I also ask the following: the whole time they were naked short silver, suppressing the price, who was buying? I believe the U.S. Government was buying in preparation for their new currency.

So I invest in [gold and silver not out of fear](#) but out of celebration of the freeing of humanity. As part of that celebration I celebrate prospering with my savings.

In closing I wish to acknowledge the great work in the area of the collapsing world economy being done by Jim Willie. His newsletter has the interesting appellation, GoldenJackass.com. I highly recommend it. Jim's dedication to following the financial space is exemplary and although he may lack bedside manner, he does deliver tremendous insights. I also applaud GATA for the work they do in this area. If you're getting your information from the television, well, just remember they're in the entertainment, or should I say, entrainment, business. They are not serious about research.

My reasoning may or may not prove to be accurate, but hopefully it enlightens you to do your homework and make some better choices for you and your loved ones.

Blessings to all,

Jim