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THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

IAN'S INVESTMENTMENT INSIGHTS

"If something can-not go on forever, it will stop."
Herb Stein

Well here we go again. In my last month's publication of this newsletter, I was convinced that the bull market in stocks was over. I ended that publication by writing, "The Powers That Be will do everything that they can to hold back the impending stock deluge, because they know that once stock prices collapse they will take everything, but gold and silver, down with them....So to answer the question that is the title of this piece, Is This It? Yes, this is it; there is overwhelming evidence to support the notion that the stock bull market is finished." Well I was wrong again. I hadn't reckoned that desperate acts on the part of the Federal Reserve and it's cronies would be able to offset another monthly key point reversal in the Dow and the S & P 500 one more time, but they did. That is four monthly key point reversals in a row; a high price followed by a low price, followed by another high price, followed once again by a monthly price reversal low…The July reversal high was reversed by the August reversal low. That August reversal low was followed by a September reversal high. That high reversal was, in turn, followed by the huge October reversal low. Study any monthly price chart and I'll wager that you won't be able to find four key point reversals in a row. The price low of 15,855 points on the Dow was reached on October 15th. From that point there were just 12 trading days left in the month of October. In those 12 days, these monstrous market manipulators were able to lift the Dow to close the month at a record high of 17,390.52 points, which constituted a gain of 9.7%.

Thomson Reuters

After a rapid and significant sell-off from a major price peak V bottoms are a relatively rare phenomenon in market price patterns. Overly bullish sentiment, which is always present at record price highs is generally depleted in favour of an increasingly bearish outlook. It usually takes time to dissipate this developing bearish sentiment. I have often reminded you that investment mood (sentiment) follows price. A 9.6% collapse from a record high price of the Dow over just 18 trading days constitutes a rapid sell-off. However, it took only 12 trading days for the Dow to recover all that it had lost in the previous 18 days. The only tangible explanation for the sudden price reversal in U.S. stock prices following such a sudden collapse is that the 'Powers that Be' used their unlimited monetary resources to move prices higher.

What's to stop them rigging stock market prices, any time to want to do it? The answer to that question is they'll keep doing it until they can't do it anymore. Of course, that answer begs another question: when won't they be able to do it anymore? My answer to that is, when they have lost control of their thieving fiat money. That day is now close at hand because they are now acting in a state of panic and are losing control.

In his publication, Peak Prosperity, Chris Martenson wrote an essay entitled "Central Planners Are in a State of Panic", which was published on November 6, 2014. The following are some of the opening paragraphs-

"The central planners are in a state of fear and panic. They are trying everything and anything to create market validation for their policies, watching with trepidation as their favoured economic metrics fail to respond to all of their frenzied efforts."

"They are so far over the tips of their skis right now that there's nothing they won't do. They've summarily thrown granny under the bus because they have this idea that negative real interest rates are the cure. The cure for what? The massive amounts of debts and imbalances their prior policies caused. So, savers are punished in the pursuit of policy. You know, 'for the greater good' and all that."

"They've spurred the greatest wealth gap ever in U.S. history, greater even than at the extremes of the Great Depression, apparently without the slightest concerns for Plutarch's ancient admonition that 'An imbalance between rich and poor is the oldest and most fatal ailment of all republics.'"

"They've even gone so far in Europe as to now force negative nominal interest rates on savers, dispensing with their usual slight-of-hand of letting inflation steal from each unit of currency in their system. When you're panicking, there's no time for subtlety."

"The Federal Reserve, the Bank of Japan (BOJ), and the ECB have decided that they want you to take your money out of your bank account and place it in the stock market. Apparently they have models that say this is a good thing. Or they just want you to spend it. And to be sure that you follow their wishes, they don't leave you any better options-and so virtually every hard asset has been targeted for price suppression. Except real estate because, hey, you have to borrow a lot of money from the banks for that, so they encourage and cheer your participation there."

"In short, everything the central planners have tried has failed to bring widespread prosperity and has instead concentrated it dangerously at the top. Whether by coincidence or conspiracy, every possible escape hatch for 99.5% of the people has been welded shut. We are captives in a dysfunctional system of money, run by a few for the few, and it is headed for complete disaster."

"To understand why, in all its terrible and fascinating glory, we need look no further than Japan."

The Bank of Japan announced on October 31, 2014 that it would escalate its purchases of Japanese government debt to $710 billion (U.S.) – 80 trillion yen – per year that is the equivalent of nearly $3 trillion (U.S.) per year if applied to a U.S. scale GDP. In the same announcement, the BOJ also determined to purchase up to 3 trillion yen in Japanese stock funds.

William Pesek in Bloomberg News on November 4, 2014 wrote-

"In announcing that it will boost purchases of government bonds to a record annual pace of $709 billion, the central bank has just added further fuel to the most obvious bond bubble in modern history--and helped create a fresh one on stocks. Once the laws of finance, and gravity, reassert themselves, Japan's debt market could crash in ways that make the 2008 collapse of Lehman Brothers look like a warm up."

And Chris Martenson wrote,

"But let's not be fooled. By the time a central bank is behaving as recklessly as the BOJ, it's time to edge towards the exit, because the chance of a flash fire in the building has grown uncomfortably high. That is, instead of providing comfort, these most recent moves should invoke greater worry for those alert enough to see them for what they are: acts of panic."

"There's just no other way to interpret the equivalent of $3 trillion (U.S.) of thin-air money besides an overt act of desperation. No, things are not okay. Yes, the risks for a disaster are growing."

These acts by major central banks in ramping up their printing presses to churn out extreme amounts of paper money are evidence that world fiat currencies are at death's door. Such acts of desperation are no different from the machinations of respective French governments as both John Law's paper money scheme and the revolutionary Assignats entered their terminal phase.

During the latter stages of the two French paper money schemes it was forbidden, on pain of death, to demand payment in gold or silver. While current governments have not outlawed ownership in precious metals or transactions in gold or silver, they have effectively made war on these two precious metals, most noticeably on gold. Thus, in effect, achieving the same result as was done in France but without the threat of capital punishment.

Spot silver achieved its price peak of $49.51 (U.S.) per ounce in April 2011 and was priced on November 13, 2014 at $15.61 (U.S.) per ounce, which amounts to a 68.5% decline. Spot gold reached a price peak in September 2011 at $1,920.30 (U.S.) and the gold price on November 13, 2014 closed at $1,162.12 (U.S.) which is down 39.5%. The HUI Gold Bugs Index reached its price high in September 2011 at 628.59 and at the market close on November 13, 2014 was priced at 157.63, which is 75% below the price level achieved in 2011. This was also slightly below the level of the October 2008 low, following the credit crisis and the Lehman debacle.

The prices of senior gold stocks have been hit hard, while the values of junior precious metals companies have been decimated, with several of these companies clinging to life support, or abandoning their properties in favour of entering the medical marijuana business. That reminds me of several junior companies abandoning the gold business and reverting to the high tech domain just before the tech bust in 2000 and the onset of the gold bull market. Perhaps this is a sign that the gold bull market is about to return and investment in medical marijuana is going to experience a similar fate to that experienced by the junior technology companies after 2000.

I have absolutely no respect for those, who should know better; when they lambaste those of us who recognise that the precious metals markets and particularly the gold market are manipulated. In fact all markets are manipulated, "There are no more markets anymore, just interventions." Chris Powell, Secretary/Treasurer Gold Anti Trust Action Committee Inc. The point is that we have increasing evidence which demonstrates that stock markets are rigged. I have shown you earlier that the V bottom recovery made in the stock markets is an unlikely price reversal phenomenon. That itself doesn't prove that prices were rigged higher, but almost all the money injected into the large banks since 2008 by central banks was used to speculate in the markets and principally in stock markets and that's direct evidence of market manipulation.

I don't want to dwell on the rigging of stock prices, rather I'd like to spend just a little time on discussing the gold price manipulation and hopefully demonstrate to you that these charlatans who pooh-pooh the idea that gold prices are manipulated are seriously misleading their followers.

Throughout history whenever governments have introduced a paper money currency they have done everything to discredit gold and silver as an alternative to their fiat paper. They have either banned its use as alternative money as Britain did during the Napoleonic Wars and following the outbreak of the First World War or, they have imposed the death penalty on those demanding payment in gold or silver as was done by respective French governments during John Law's and the Assignat paper money episodes.

In a publication of the Long Wave Analyst entitled Four Kondratieff Cycles 1789-1999 published in September 1999 and available on the website under the Special Edition section of the publications, I produced a treatise commencing on Page 4 entitled the War on Gold: 1931-1999. This chronicles the ongoing war between paper money and gold from 1931 to the year of publication, 1999. For a good summary of the continuation of this ongoing war please read Chris Powell, Secretary/Treasurer Gold Anti-Trust Action Committee Inc. at http://www.gata.org/node/6462. I support Gata's ongoing efforts to continue to educate those of us who wish to be informed regarding the ongoing suppression of the precious metals prices.

Why is the war on gold being fought with such vehemence at this time? I think the simple answer to that is the paper dollar is coming under increasing pressure from several quarters with Russia and China leading the attack. Under the circumstances, the United States must continue to discredit gold as viable alternative currency; she cannot allow the dollar/petrodollar to fail. Every challenge to the petrodollar's supreme status as the international currency sine qua non has, up until now, been met with force; think Saddam Hussein, Gadhafi, Assad and Iran. Now that challenge is coming from two heavyweight countries with support from several other countries. They are settling trades between each other in their own currencies rather than using the U.S. dollar. President Putin has advised the CEOs of Russia's energy companies that in any future energy sales they should seek payment in Roubles or Yuan and not U.S. dollars. The Russian President has accused the United States, "...of living beyond their means and shifting a part of the weight of their problems to the world economy." And, "they are living like parasites off the global economy and their monopoly of the dollar." The U.S. dollar's role as the international trade settlement currency is rapidly being diminished.

The price of gold is a measure of the relative values all paper currencies. Since gold is priced in U.S. dollars its value in all other currencies is whatever is the value of each of these currencies relative to the dollar. More importantly, however, in order to maintain its exalted position as the prima facie currency governing world trade, the U.S. dollar must be convincing as a currency without peer. Gold is a currency. America cannot allow gold to be considered a superior currency to the U.S. dollar. Hence any challenge by gold to the dollar must be met with destructive force.

The initial challenge to the U.S. dollar's 'exorbitant privilege' began in the late 1950s when some countries began to redeem their dollars for America's gold at the official price of $35.00 (U.S.) per ounce. The pace of these dollar redemptions for U.S. gold quickened in 1960. In 1961, in an effort to hold the gold price at $35.00 (U.S.) per ounce in an effort to limit the amount of gold being withdrawn from the United States, the London Gold Pool was formed to sell gold to hold the price at $35.00 (U.S.) per ounce. This Pool was a consortium of eight central banks under the leadership of the United States, which controlled 50% of the fund.

The balance of payments deficit continued to increase and the United States was not only losing gold sold in London, but also to those countries who exercised their rights to redeem their surfeit dollars. France realized the futility of the Pool's operations and quit the price suppression scheme in early 1967 with the U.S. taking up her share in the Pool. The Pool continued to try and control the gold price at $35.00 (U.S.) per ounce, but the effort was a losing proposition, as it had been since the Pool's inception, given the huge worldwide and growing demand for gold in the face of increased U.S. government dollar creation. The Pool's life expired in March 1968. During the 6 years of existence of the London Gold Pool, it is estimated that the U.S. was drained of approximately 5,000 metric tonnes of gold. How much more gold did the U.S. lose between the closing of the London Gold Pool and the closing of the gold window by President Nixon almost three and a half years later? We can be sure that it was a significant amount and perhaps as much as the 5,000 metric tonnes lost during the era of the London Gold Pool. During these years the U.S. dollar printing was increasing to fund the escalation of the Viet Nam War and President Johnson's 'Great Society' initiatives.

When President Nixon abandoned the U.S. dollar's official link to the price of gold in August 1971, which had been established at Bretton Woods in 1944, it was a broken promise and an admission that the U.S. dollar paper currency was no longer as good as gold, at least at $35.00 (U.S.) per ounce. The London Gold Pool's six year battle fought to preserve the $35.00 U.S. dollar/gold price relationship was lost. Eight and a half years after the gold window was closed the price of gold had increased by 2,400% demonstrating how resounding gold's victory had been.

I will continue this in the next episode of Ian's Investment Insights, which is scheduled for publication on the normal date for the publication of this letter, which is Friday December 5, 2014. I will continue writing about the war on gold and demonstrate that the battle now being fought on the Comex is similar to the efforts of the London Gold Pool to suppress the price of gold. The battle on the Comex is close to completion as evidenced by the obvious acts of gold price suppression in the paper gold market. The huge demand for physical gold will overwhelm the efforts of price containment in the paper market.

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