

# Investor's Digest

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## GOLD SALES OFFER A MORE ACCURATE READING OF AMERICAN ECONOMY

# U.S. may have already fallen over the cliff

**R**egardless of the outcome, the heated debate over America's fiscal cliff signifies nothing. But gold's growing role as a hedge against global fiat currency debasement gives us a more realistic read on the future of the American economy.



Nick Barisheff

While President Barack Obama dickers with John Boehner, Speaker of the U.S. House of Representatives, on US\$607 billion of spending cuts and tax increases, Congressman Ron Paul believes America has already fallen over the fiscal cliff, given that Washington's bill for unpayable entitlements has now hit US\$222 trillion.

"The treasury's bare," proclaimed Mr. Paul in an interview on Fox News Dec. 17.

"The country's bankrupt; they won't admit it and that's why there's so much anger and frustration, because it's hard to divvy up loot when there's none to divvy up."

### Growth must be genuine

It goes without saying that real economic growth comes from business-led capital expenditures, and not from tinkering with tax rates and budget cuts in the face of insurmountable debt.

Instead, to avoid dividend tax hikes that could jump to 43.4 from 15 per cent, leading U.S. companies like **Costco Wholesale Corp.** (COST-NASDAQ, \$98.92) awarded shareholders, including manage-

ment, a US\$3 billion Xmas dividend gift.

Moreover, aping Washington's misguided script that tries to goose productivity by increasing debt, Costco had the nerve to pay this dividend with borrowed money.

Meanwhile, signs of bankrupt governance, if not outright bankruptcy, abound in the U.S.

As reported on Greg Hunter's *USAWatchdog.com*, a website that bills itself as supplying the straight dope, over 20 million homes in the U.S. remain vacant.

Moreover, to prevent more damage to fragile balance sheets, Mr. Hunter adds, financial institutions are avoiding foreclosures.

Despite historic stimulus measures, nearly 47 million Americans — about one in seven, an all-time high — survive on food stamps.

Meanwhile, robust sales of both guns and ammunition in the U.S. suggest widespread unease.

And unlike profligate leaders in big government and big business, Americans who do have jobs are trimming balance sheets, as evidenced by their dwindling spending on almost everything.

Like reduced spending on consumer goods, purchases of gold bullion portend a fundamental fiscal shift.

It will be one, says Mr. Paul, that will be spurred by "a dollar crisis where we will be forced to revamp and change our system of financing.

And although he admits this won't be anything as bad as the collapse of the Soviet system, it will involve a lot of change.

Meanwhile, in faraway Japan, home to another debt-fuelled currency debasement, Japanese pension funds with US\$3.4 trillion in assets are taking a big step.

### Change will occur

To protect themselves against sovereign risk, inflation risk and, of course, currency risk, these funds are diversifying into gold.

In doing so, they're following in the footsteps of U.S. pension funds like the Teachers Retirement System of Texas, as well as billionaire hedge fund managers Kyle Bass, David Einhorn and Daniel Loeb.

All three gents are on record as favouring ownership of actual gold bullion — in allocated storage in a secure vault.

Another stellar investor, Jim Rogers, the billionaire co-founder of the Soros Quantum Fund, recently said he intended to sell U.S. debt and buy more gold and silver.

Meanwhile, central banks are placing similar bets on Washington's antics, having scooped up 351.8 tonnes of gold in the first nine months of 2012 alone.

Turkey here has been a real standout, importing 4.2 tonnes of the yellow metal in November for a total of 117.2 tonnes, while South Korea reportedly owns six times as much gold as it did in 2011.

For its part, China, the golden elephant in the room, has seen demand for gold rise 27 per cent annually since 2007, according to Casey Research of Stowe, Vt.

In fact, while China has been bulking up on bullion, its citizens, goaded by government officials, have been buying gold at post-office wickets, bank counters — even at automated kiosks.

Fiscal cliff theatrics aside, what's a fair price for gold? Listen to Lee Quaintance and Paul Brodsky, fund managers at QB Asset Management in Lake Placid, N.Y.

In their most recent letter, Messrs. Quaintance and Brodsky calculate a "shadow gold price."

### Calculation is used

It uses the Bretton Woods monetary calculation for valuing the fixed exchange rate linking gold to the U.S. dollar.

By dividing base money by official U.S. gold holdings, they come up with a shadow gold price of over US\$10,000 an ounce.

Using a variety of other measurements, I'm also forecasting a price of \$10,000.

And I urge readers interested in learning more to buy my upcoming book: *\$10,000 Gold: Why Gold's Inevitable Rise is the Investor's Safe Haven*. It's being published by John Wiley & Sons.

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