The CJ Investment Newsletter

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Betrayed by Our Own Government?

Purpose

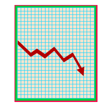
This is a reissue of previously disseminated information.

The *CJ* Investment Newsletter deals with the entire spectrum of securities investing, including cash (money market funds), bonds, equities and options. It will evaluate the overall investing environment and then discuss the relative allocations of these asset types, as well as strategies to implement within them. Essentially, it reflects what I'm actually doing with my clients.

These letters are not sent "cold." Either I know you or someone you know gave me your name. Yes, this letter *is* a sales tool. It communicates how I apply my investment strategies, so that you can decide, without any sales pressure, if my thinking is compatible with how you want your money invested. If you're not already a client, I would like to discuss your *becoming* a client. Please call me for more information.

However, that's not its only purpose. Even if you never become a client, if you want this information, I want you to have it – for a while, anyway. My hope is that providing this information and teaching you what I think is important when investing may help you. Please contact me if you have any questions or comments. I'd love to hear your reaction to my letter.

Quick Look

Market	**Next Expected Move**
	

Some good reasons for purchasing gold and silver miners since 2001:

- In times of inflation, commodities, and, especially, gold and silver, appreciate in price. The Fed has been pursuing inflationary policies ranging from strong to ridiculous since Alan Greenspan became Fed Chairman. Ben Bernanke has continued these policies.
- In times of currency problems or crises and in times of political uncertainty, people tend to reach for the safety of gold and silver in their flight-to-quality responses to the problems of the day. After all, fiat currency can become worthless, while gold and silver never have.

Imagine my surprise to see gold and silver smashed in the markets, starting last summer. I even came up with a working theory I called "The Olympics Commodities Drop" to help explain what happened. It's wrong. Another working hypothesis debunked.

Why, then? Recessionary forces can cause significant price declines in goods and services, but the recession is just starting at this point.

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* *Merry Christmas and Happy Holidays* *

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Market crashes can also lead to price declines in securities and commodities as investors follow the old adage: "When you can't sell what you want to sell, you sell what you have to in order to pay your debts." I could be wrong, but when I add the factors in play up in my mind, I see little reason for gold and silver to have declined as they have, even if other commodities have declined in price due to reduced demand.

It's especially surprising to me, given the huge increase in the monetary base since the Fed opened up its special lending facilities in the spring and greatly accelerated with the announcement of the TARP and the subsequent "bailout" programs announced by Henry Paulsen, the Treasury Secretary. Free reserves went from ($17) billion on 9/8/08 to a "peak" of ($409) billion almost ten weeks later. The monetary base grew from $874 billion to $1.505 *trillion* from 9/10/08 to 11/19/08, *a 72% increase in 10 weeks.*

The other money supply figures, M1, MZM, M2, *et.al*, have not grown as fast as the monetary base for three primary reasons:

- It takes time to work through the banking and financial system to get out into the general economy, as we've discussed here in the past.
- Much of the created money is going directly into financial assets, slowing its assimilation into the general economy even more.
- The economy is going into recession, slowing the velocity of money. Still, the velocity has not yet slowed enough to counteract the inflation that should happen as the additional money created finds its way into the general economy.

For the last few years, there have been suggestions of market manipulation in the precious metals markets, but especially for silver, and, to a lesser degree, gold. An organization called the Gold Anti-Trust Action Committee (GATA) has regularly been monitoring suspicious activities, and informing those on their email list of the developments. Recently, Ted Butler, a noted silver analyst has gathered facts, including a copy of a letter from the Commodities Futures Trading Commission (CFTC) written to California Congressman Gary G. Miller, that led to some pretty damning conclusions.

The basics are that the CFTC, contrary to their express purpose for being, is apparently allowing manipulation in the futures markets for silver and gold by certain large institutional players, especially JP Morgan Chase (JPM). In addition, when Bear Stearns was merged into JPM in the spring, the Fed, the Treasury and the CFTC allowed the merger of the second largest silver short in the world (Bear) with the largest silver short in the world (JPM). The combination of the two shorts at the time translated to shorting *169,000,000 ounces of silver – about 25% of the world's annual production.* How can that *not* manifest manipulation?

From Butler, "The Real Story": "The price of silver at the time of Bear Stearns implosion was $20 to $21 an ounce. A free market covering of a concentrated short position of this size would have driven silver prices to the $50 or $100 level and would have exposed the long-term manipulation. Rather than let the free market deal with the required short covering of such an uneconomic and unbacked short position, government authorities arranged to have the short position transferred to JP Morgan. This was undertaken by the U.S. Treasury Department, along with taxpayer guarantees against loss to Morgan worth billions of dollars. This was done, no doubt, to save the financial system from imploding. This was also patently illegal, as it aided and abetted the silver manipulation. "

One net effect has been to create a disconnect between the futures price of gold and silver on the exchanges and the price one must pay for the actual material. The premium for purchasing actual silver is running at least 50% to the COMEX price, and often more. Mints, including ours, have halted production of gold and silver coins due to lack of supply at times.

But the worst thing is that those of us who studied history and economics and made the right investment choices regarding investing in gold and silver have suffered huge losses in those positions due to our own government's complicity in a market manipulation by at least one large financial institution. What price do *you* think silver miners would be if silver was at $50 or $100/ounce instead of $10/ounce on the COMEX? Where do you think gold miners would be trading if gold were back over $1,000/ounce? $1,100? $1,300?

Further Reading

Ted Butler, "The Real Story,"
http://news.silverseek.com/TedButler/1226344970.php

Ted Butler, "Beyond Taxation Without Representation,"
http://news.silverseek.com/TedButler/1227634141.php

Chris Powell, "Gold and Silver Market Manipulation Update,"
http://www.gata.org/node/6873

Gene Arensberg, "Got Gold Report – COMEX Commercial Short Positions Still Low for Gold, Silver"
http://www.resourceinvestor.com/pebble.asp?relid=48202