



The advisor's goal is to provide gold and silver bullion investors with market commentary when significant developments warrant updates.

August 3, 2004: EXPECT THE UNEXPECTED.

As I sit behind the wireless keyboard of my built-from-scratch computer, the sun is shining and the breeze is blowing in the beautiful Shenandoah Valley of Virginia. This is the image, in one form of serenity or the other, that most investors have of the environment around them this Third Day of August, 2004 A.D. Granted, we just got "new" intelligence that originated back in 2001 that pretty much tells us the obvious, that our enemies who profess to be "Good Muslims" are going to attempt to strike "high-profile", "soft" targets in the United States. Why would they strike insignificant targets? This bunch of criminals and suicidal maniacs hiding falsely behind the Koran work the press and the media like a Presidential candidate, and want maximum global coverage to be able to show to the suppressed masses of the world how they are making the world's only superpower, the hedonistic, profligate, capitalistic piggish America, afraid to go to work in the morning. They forget that we have over 200 years of democracy under our belts when they have nary a minute, and have fought more than one major conflict over these centuries to preserve our and others freedom. **We unquestionably have major faults as a citizenry and nation right now, but one of them is not the abandonment of human dignity and liberty.** These bums have and will cost us more American lives and money as time progresses, but I am certain they will never break our will. Others much more powerful than 50,000 barbaric Jihadists around the world have tried and failed, and these born-again fundamentals will also. It will be a long road, but we and what allies we have left have been on it before. World domination is a very tired old theme that has ended up in the trash heap of history going back to the days of Alexander The Great. Osama the Great he isn't.

Just don't like scumbags threatening me or mine. Although we are in the Desert of Hell called Iraq right now, with many of our young men and women at risk, we are taking the fight to the enemy. Those insurgents we kill today in Iraq and around the world will not be able to fly a plane into an office building tomorrow. They think we are weak. In warfare, the biggest mistake an enemy can make is to underestimate his opponent.

This entire discussion is relevant to the economy and investment landscape as we head toward the November election. As shown in Spain, the terrorists will attempt to disrupt and influence the American elections. I think this is a 100% certainty. They would like to get rid of President Bush, who has cost their leaders and foot soldiers dearly to date. However, I think a major terrorist event in the U.S. prior to the elections will have the opposite effect. Spain was not at war on the scale of America when dozens were killed while riding the trains; they had a minimal number of troops in Iraq. Popular or unpopular as a war, the Iraq Campaign has over 100,000 American troops in

harm's way, and Americans are prudent enough not to want to risk one serviceperson's life by abruptly and significantly changing the command strategy solely from the political side. This is not a political message. It is the reason I think Kerry has not gained measurably in the polls since the Democratic Convention. Any way, I do not want the terrorists to obtain new followers by showing that they influenced the election of an American President. Bush has his flaws, but is "Hope really on the way"??? My late father spent 3 years in Vietnam as a Green Beret, 82nd Airborne, not 4 fricking months in-country.

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The bottom line is that we are in for some very rough sledding in the months ahead.

Events will occur that are not only disturbing for a society that generally does not have to fear for its personal safety, but these events will disrupt the economy and the financial markets. As the Sage of Wexford told you quarters ago, the current economic "recovery" is fizzling, and consumers, having just bought that 14 miles per gallon humongous SUV, are cutting back on spending as they pull away from the pump. This was bound to happen to an overleveraged economy. **The debt assumption rubber band has been stretched to the limit, and its snapping will sting more than one variety of lender and borrower alike.** Sure the home purchase frenzy continues, although there are signs of saturation and topping, but would you want to be the one holding the paper on these recently-purchased properties??? Home affordability, as I have said before, will stall the Great Home Acquisition Circus faster than rising interest rates alone will. Net income growth has been conspicuously absent during this economic BOUNCE, and as home prices have continued to go through the roof, the ability of current debtors to pile more monthly debt service on has been greatly compromised. Oh, the financial intermediaries have been more than creative with structuring mortgage finance to shove money at the least qualified borrowers, but this form of loose credit will come back to bite them as delinquencies and eventually outright defaults. And when those "bought-at-the-top" houses increasingly go on the market, what do you think that will do for prices in your neighborhood??!

That deterioration in real estate prices and markets will unfold relatively slowly, in my opinion, unless Fannie or Freddie get caught with their interest-rate swap knickers down. That is an event, however, that I think will eventually happen to the GSE's, and the disruption in the secondary mortgage market will be colossal, of epic proportions requiring another Uncle Sam bail-out and restructuring. A restructuring that will take away the IMPLIED semi-Government guarantee for future originations that will make home financing much more selective in its borrowers and, generally, less available and affordable. Another arrow in the heart of home prices. **But in other markets, particularly the financial markets, I think we are at a crossroads where events are going to happen fast and furiously.**

American investors are a generally spoiled lot right now, having been rescued from a 4th consecutive year of losses in 2003 by historic Fed credit largess and the Government's rapid-fire tax cuts. The punchbowl has been taken away by a new credit tightening cycle from the Federal Reserve, even if a "measured" one, a necessity when commodity prices stay stubbornly high due to emerging country demand and oil hangs solidly above \$44 per barrel and pointed higher. Plus the Dollar is teetering precariously on the edge and higher U.S. rates can at least attempt to make the inevitable devaluation more palatable to foreigners soooooo over-exposed to the Reserve Currency. The Fed is vainly trying to regain credibility after being an irresponsible central bank for the last 7 years, but few global investors are buying the Fed's new shtick. While the Fed and the Treasury can still attempt to keep the system liquid by monetarizing the debt partially by purchasing open-market Treasuries and intervening in the stock & currency markets, money created out of thin air has a cumulatively negative effect on interest rates and the Dollar. **We have just begun to see the effects of years of excessive monetary and credit expansion in the United States. It goes by the name of INFLATION.** The River Boat Gambler, Sir Alan, has played his last good hand. It is all bluffs at this point in the game. **Stock investors are about to rush the exits as the markets head further down in August after having put in the right should of a classic head-and-shoulder formation.**

So if you have a vacation planned this month, and many Americans do, bring your laptop with you to peek back at reality in between dips in the great blue sea. You will be glad you did. Always have your cell phone with you with the number of your broker (stock, bond, real estate, and bullion), programmed in to make speed dialing possible. You may need every second. The financial landscape looks much like it did in August of 1990, at the beginning of that mini-bear market, but the condition our condition is in is much, much, much worse in the summer of 2004. **Our economy and financial system have never been so leveraged. And you know what happens when you get a margin call panic selling!** Saddam invaded Kuwait that summer, and spiked oil into the mid-\$30 per barrel zone. Today, we have plenty of potential events emanating from the Middle East or Middle America to provide the trigger for even more volatile conditions. **If you have not planned ahead, lightened up big time on your equity and bond portfolios, raised some cash, and bought asset protection, put on your thinking cap before putting on your swim trunks.** Otherwise, you may not be able to afford a vacation next year!

Since all of the dead bodies in accountancy land have not even begun to float to the surface of public view (we have just seen the old cartoons to the olden-day movie), steel yourself for a giant hairball of illiquidity, loss or restated earnings to be coughed up by one of our largest financial institutions. **The carry-trade that Sir Alan has pandered to in giving more advance warning than a V-2 rocket over London has hardly unwound the majority of its borrow short-term and lend/buy long-term 20-to-1 leveraged positions. Should interest rates spike during an oil run to \$50, a major terrorist attack Stateside, or a swoon in the Dollar, then many of the play-on-the-railroad-tracks speculators subsidized by Sir Alan for the last 4 years are going to be squeezed in the exit doors.** Greed has clouded many a trader's judgment over the annals of history. It is about to have done so again.

EXPECT THE UNEXPECTED. Having studied meteorology, I must say that the atmospheric variables in the economy and financial system are ripe for a **STORM OF THE MILLENNIUM.** Get to high ground and make sure your financial larder is well stocked. **One thing about gold, silver, palladium, platinum, and colored diamonds they don't spoil with time.** Hope had better be on the way! Heck, hold the hope and give me the H-E-L-P.