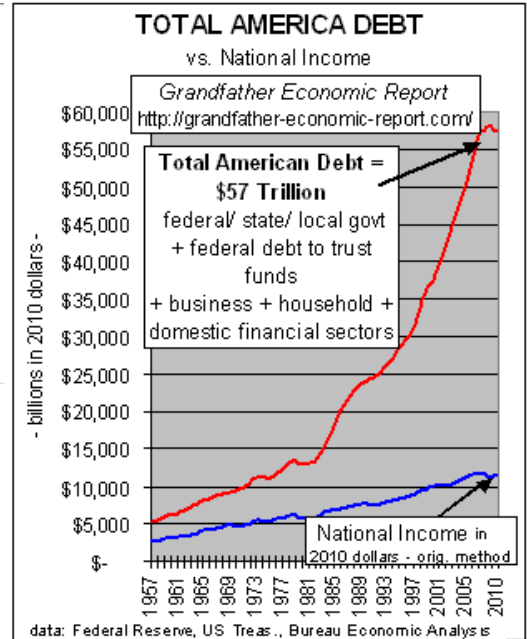
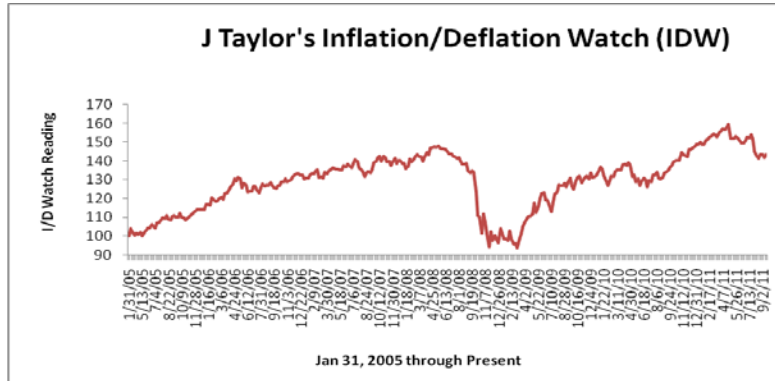
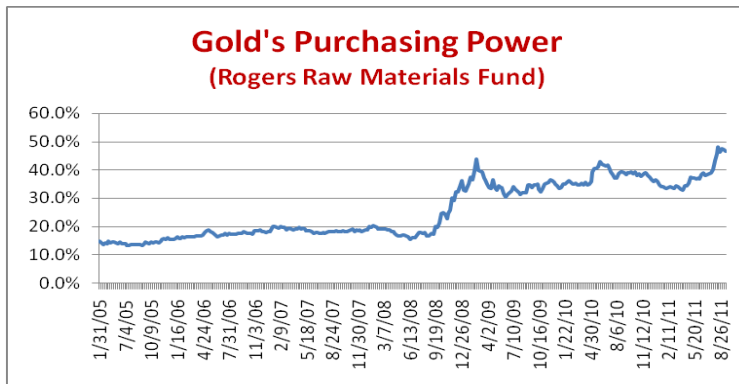


Deflation: Making Sure It Does Happen Here!



Bernanke with his high flying Ivy League Ph.D. may have thought he had it all figured out when he wrote his paper in 2002 titled, "Deflation: Making sure 'It' Doesn't Happen Here." But what the good doctor didn't quite understand was that his money, unlike gold is "debt money." In other words, debt is the raw material from which money is created in a fiat money system. As such, every time Dr. Bernanke prescribes more money he is simultaneously prescribing more debt. And as the chart above on your right shows, debt is growing exponentially while income is growing in a linear manner if at all. So if debt is the problem to start with, and if debt is inherently deflationary, what reason is there to think that adding more debt will be any more successful in solving this deflation than prescribing more alcoholic beverages to cure an alcoholic's problem? When in the short run, it may appear to make things better, longer term the patient's problems get worse. One high ranking banker or politician from Europe said last week that this time we are worse off than in 2008 because at least in 2008 sovereign nations could bail out the banks. But now that the sovereign nations are in trouble, there is no one left to bail them out.



Our IDW's recent decline is in line with growing establishment concerns that Dr. Bernanke's excellent

prescriptions are not working. Austrian school observers understood that just as in the 1930s, efforts to inflate our way out of debt would once again be a problem. It actually makes me livid when I hear establishment people say “no one could have seen this coming” when Austrian economists have been predicting it for decades. Our IDW paused for a sideways finish this week at 143.3.

But what is most encouraging for gold mining stocks is the continued strength in the “real” price of gold. As measured by the Rogers Raw Material Fund, it closed this week at 46.8%. And with this continued strong fundamental for gold mining companies, as I have been reporting, major gold mining companies are enjoying surging earnings. And surging earnings are finally bringing on rising share prices for senior gold stocks.

Below see the HUI which has been breaking out to new highs.

Obviously there is still some correlation between the general stock market and gold stocks and I would expect if we get a very major decline like the post Lehman brothers event we will also see a dramatic decline in the price of gold mining stocks. However, given the fact that the gold shares have not participated in the run up in the price of gold, it may be that any major decline in the gold shares, should that take place, could be very short lived.

However, it will most likely be true that as the big producers continue to reap huge profits, they will be looking down the food chain for the juniors who are building big deposits. One of my favorites in that regard is San Gold. That company’s president said on my radio show that he expects to report an exponential increase in the gold resource of that company. If that takes place, I would think San Gold could well be a takeover target. The good thing however for shareholders is that George Pirie is also an excellent operating guy who is proving his own weight in gold as San Gold continues to under promise and over deliver.