



China's Secret Plan to Take Over the World's Gold Market

*Plus, we're getting a head-start investing in
America's newest huge oilfield*

Something very unusual happened in the stock market late last year.

Rather than trading up and down seemingly at random, *all* stocks were trading – up or down – in unison.

The only time in history stocks have traded this way was leading up to a major war or in times of extreme market panic. For example, stocks traded this way in 1987, in the days and weeks that led up to the big crash. Stocks traded this way in 2001, in the days and weeks before and after 9/11. They traded this way in fall of 2008, before and after the Lehman bankruptcy. They traded this way during the crash of 1929 and then again in the late 1930s, just prior to World War II.

However... even in these extreme market situations... the amount of correlation (the amount of trading in unison) didn't reach the levels we saw last fall. Let me give you the numbers...

Financial analysts measure correlation on a scale between 0.0 and 1.0. A correlation of "1.0" means the two values increase or decrease in an identical fashion – a perfect match. A correlation of 0.5 means the two values trade in unison – up or down – 50% of the time. In general, we say values are correlated if the number is higher than 0.5 for a significant period of time.

Since 1972, individual stocks in the S&P 500 have shown an average three-month correlation to the index of around 0.46. That is, each stock in the index goes up or down in a way that's relatively uncorrelated. On any given day, some stocks go up and some go down.

But at the market's most recent lows last October, the trailing, three-month correlation among all the stocks in the S&P 500 was an astounding 0.86. That is, during the market's correction last fall, almost everything fell or rose together. *This has never happened before.* Never before in the market's history have so many stocks been so tightly correlated before. Not in 1987 (when correlation hit 0.81). Not in the days before World War II (0.6). Not even during the Lehman crisis of 2008 (0.78).

This incredibly tight correlation wasn't limited to only the largest 500 U.S. stocks, either. Look at the incredible frequency of so-called "90% days." *Those are days when at least 90% of the S&P 1500 (not the S&P 500) move in the same direction.*

You almost never see days like this because most of the time, the market holds different opinions about different com-

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Editor: Porter Stansberry

panies. Economic conditions that hurt one business will usually help another kind of firm. In a legitimate free-market environment, virtually no set of economic conditions is universally bad or good. And yet... the frequency of these incredibly rare days continues to increase, year after year.

In 2006, the market saw 14 trading days where more than 90% of the S&P 1500 traded in the same direction. In 2007, there were 23 such days. In 2008, there were 39. In 2010, there were 44. **And in 2011, there were an astounding 58 days.**

The record-setting correlation wasn't limited to stocks, either. If you compare commodity prices to the stock market, you'll find they've become completely linked. Stocks and commodities have been trading almost precisely in sync for more than a year – something I've never seen before. Historically, stocks and commodities have been inversely correlated. But today, they're trading as one.



What explains this extremely unusual situation?

The entire global financial system – with the U.S. dollar at the center – has been under the threat of a deflationary, credit-led collapse since the fall of 2008.

To deal with this threat, the Federal Reserve has exercised its considerable power to print money. The Fed has tripled the monetary base, printing close to \$3 trillion since March 2009. This new money was used to buy U.S. Treasury obligations (allowing the government to finance its enormous annual deficits) and large-scale purchases of dubious mortgage assets from troubled banks.

Despite the massive scale of the Fed's actions, the global monetary system has remained in a state of "red-alert." Just look at the radically high correlations in financial assets and commodities, as well as the large declines in stock prices as measured by multiples of earnings. Why have the markets been so nervous, despite the Fed's actions?

Because Europe's banking system posed an equally large threat.

Actually, in Europe, the threat of collapse was greater.

The fragmented nature of Europe's politics meant the markets couldn't be certain which way Europe would break. The Germans, for example, are well known to oppose any policies that would deliberately weaken the euro via inflation. This European deflationary threat reached its peak in October last year – just as the market's correlation was reaching an all-time high.

Here's how I explained the risks at the time...

Europe's banking system holds \$55 trillion in assets – roughly equal to the total debt (public, private, corporate) in the United States. Europe's banking system is four times larger than the U.S. banking system. And it is stuffed to the brim with sovereign debts that will never be repaid...

We're not talking about the failure of a single bank – though it seems more and more likely that a single bank (UniCredit) will be first. We're talking about the failure of an entire system, the largest system of credit and banking on Earth. Why, then, don't we simply short everything? Because shorting the sovereign is incredibly risky.

The paper currency system we have in place means there is no actual limit to the size of the bailout that can (and in my view, will) be organized. Yes, the ECB has rules against bailing out countries. But those rules will be changed, you can bet on it. The Federal Reserve cannot allow U.S. money-market funds to lose \$500 billion. It cannot allow Europe's entire economy to collapse. Whatever the other risks – inflation, a panic out of euros and dollars – anything will be tolerated except a complete collapse....

My core recommendation is for you to own plenty of gold (and silver) bullion. Consider this: Total central bank gold purchases in the third quarter more than doubled over the third quarter of 2010. This is the world fleeing to gold. This is the death of the U.S. dollar as the world's reserve currency.

And although it wasn't publicly announced, last October was almost certainly the month when the European Central Bank (the ECB) made its critical decision. The bad debts in Europe's banks would be papered over. Long before any official action was taken, the euro began to fall against the dollar, correlations began to ease in the financial markets, and the bond markets in Spain began to rally.

Finally, on December 21, 2011 – just before the end of the year – the ECB "loaned" roughly 500 billion euro to Europe's major banks at 1% interest. This capital will allow all the big banks to report adequate capital ratios when they file their annual reports. It will also help them to raise new equity, if that's required. These loans literally saved UniCredit from insolvency.

The bank was the single-largest recipient of ECB capital. This week, even huge European bank UniCredit is rallying strongly. It is still down more than 90% since I first warned about the bank in March 2010, but you can see the tide is changing.

There will not be a deflationary collapse in Europe. The euro will not collapse in the near term. Instead, Europe will see a gigantic increase in the money supply.

When asked by the *Financial Times* if there was any substantive difference between what the ECB was doing (printing money and “loaning” it at 1%) and what the Federal Reserve has been doing since 2009 (printing money and buying mortgages and Treasury bonds), ECB President Mario Draghi replied, “Each jurisdiction has not only its own rules, but also its own vocabulary. We call them ‘non-standard measures.’ They are certainly unprecedented. But the reliance on the banking channel falls squarely in our mandate.”

I have been writing, consistently, for almost four years, that the world’s gigantic debt bubble will end in a massive *inflation*. I have long believed sovereign borrowers from around the world would choose to inflate their debts away, rather than suffer the consequences of actual defaults and restructurings. The reluctance of some members of the European Union (Germany, in particular) to do so caused a delay in the realization of my thesis... But it will not change the inevitable result.

Soon, you will see a massive financial-led economic rebound as the credit market re-opens, thanks to government-manipulated ultra-low interest rates. In the short-term, millions will cheer these moves, as the risk of any economic pain will have apparently been removed.

But this resolution is a mirage...

Instead of wiping out the bankers, brokers, and politicians who approved these bad debts (and were enriched by them), these bad debts will now be paid for by the millions and millions of people who rely on the two major global currencies – the euro and the dollar. The trillions of dollars in bad loans will be paid for through inflation. It’s an invisible, secret tax that not one in a hundred regular people even understand.

Over time, the result of these actions will be a vastly lower standard of living, thanks to declines in purchasing power and increasing commodity prices. Real wages will be much lower, as employers will not readily increase wages to keep up with inflation. Volatile paper currencies will make it harder for entrepreneurs to invest and source products and services across borders. The so-called “wealth gap” will increase dramatically, as inflation will *increase* the purchasing power of the rich (whose assets will increase in value) while the poor, who have no ready means to protect themselves from inflation, are further impoverished.

And... in a surprise to the politicians who think easy money and bigger annual deficits are the path to greater cen-

tralized power... the coming inflation will cause massive social unrest. Occupy Wall Street is merely a sign of what is to come. Soon, the protesters won’t merely march past the homes of the wealthy and the powerful... they will firebomb them.

The stability of our currency – of any nation’s currency – is ultimately a reflection of the stability and reliability of our culture. It was the “Corruption of America” that led to the paper money system we use today. Many people forget that until 1971, gold-backed money – sound money – was a privilege every American enjoyed. Not anymore...

Today, under a purely paper system, the entire monetary system is controlled by the political class, which has the power to allocate capital or to deny it. Thus, the world’s capital markets, rather than acting as capital allocators, have become merely speculative marionettes, whose strings are controlled by the well-connected and the influential.

Consider the recent case of Philipp Hildebrand, president of Switzerland’s central bank, the Swiss National Bank (SNB). The Swiss central bank has long been famed as the world’s best strong-currency advocate. It has a long tradition of backing its paper money with gold. In August, the bank made an extraordinary and uncharacteristic decision. Hildebrand decided to cap the value of the Swiss franc by deliberately devaluing the currency against the euro and announcing that the value of the Swiss franc would never be allowed to rise above a certain point. This immediately eliminated the Swiss franc as one of the world’s few remaining “lifeboat” currencies. Its value plummeted against the dollar.

Just two days before that stunning change in Swiss policy, Hildebrand placed a \$512,000 trade into U.S. dollars from Swiss francs. Hildebrand resigned his post this month after the outcry over his transaction. This kind of petty graft seems remarkably stupid for such a sophisticated political figure. But perhaps it simply speaks to the arrogance of his class. (He claims his wife placed the trade without his knowledge.)

What was not as widely reported about the scandal was, to me, far more interesting. Hildebrand and his wife met at Moore Capital, one of the world’s largest hedge funds. Its specialty is foreign exchange trading. How much would you like to bet that Moore Capital was also long dollars – billions of them – prior to the change in Swiss policy?

This is how the game will be played. While the weak currency policies of the major nation states will impoverish their citizens, they will never be allowed to impoverish the elite, who will only grow richer and far more powerful. The only question is, how long will the game continue before the side effects (higher prices, lower wages, more social unrest) turn over the entire apple cart?

We cannot know. God does not whisper in our ear. But...

we do know one particular U.S. dollar holder who's not your typical blue-collar, inflation-ignorant, financial patsy...

We're thinking about China. The Middle Kingdom is the largest of all U.S. creditors. How do the Chinese feel about this print-at-all-costs strategy? They're not throwing Philipp Hildebrand and a going-away party in Gstaad...

I have good information that the Chinese have launched a plan to replace the dollar with a gold-backed, Chinese yuan. To do so, **they're going to buy millions and millions of ounces and take over the world's gold trading.**

The story might sound like a James Bond novel... but I assure you, every word is real.

How the Chinese Will Establish a New Financial Order

For many years now, it's been clear that China would soon be pulling the strings in the U.S. financial system.

After all, the American people now owe the Chinese government nearly \$1.5 trillion. I know big numbers don't mean much to most people, but keep in mind... this tab is now hundreds of billions of dollars more than what the U.S. government collects in ALL income taxes (both corporate and individual) each year. It's basically a sum we can never, *ever* hope to repay – at least, not by normal means.

Of course, the Chinese aren't stupid. They realize we are both trapped.

We are stuck with an enormous debt we can never realistically repay... and the Chinese are trapped with an outstanding loan they can neither get rid of, nor hope to collect. So the Chinese government is now taking a secret and somewhat radical approach.

China has recently put into place a covert plan to get back as much of its money as possible – ***by extracting colossal sums from both the United States government and ordinary citizens, like you and me.***

The Chinese "State Administration of Foreign Exchange" (SAFE) is now engaged in a full-fledged currency war with the United States. The ultimate goal – as the Chinese have publicly stated – is to create a new dominant world currency, dislodge the U.S. dollar from its current reserve role, and recover as much of the \$1.5 trillion the U.S. government has borrowed as possible.

Lucky for us, we know what's going to happen. And we even have a pretty good idea how it will all unfold. How do we know so much? Well, this isn't the first time the U.S. has tried to stiff its foreign creditors.

Most Americans probably don't remember this, but our last big currency war took place in the 1960s. Back then, French President Charles de Gaulle denounced the U.S. government policy of printing overvalued U.S. dollars to pay for its trade deficits... which allowed U.S. companies to buy European assets with dollars that were artificially held up in value by a gold peg that was nothing more than an accounting fiction. So de Gaulle took action...

In 1965, he took \$150 million of his country's dollar reserves and redeemed the paper currency for U.S. gold from Ft. Knox. De Gaulle even offered to send the French Navy to escort the gold back to France. Today, this gold is worth about \$12 billion.

Keep in mind... This occurred during a time when foreign governments could legally redeem their paper dollars for gold, but U.S. citizens could not. And France was not the only nation to do this... Spain soon redeemed \$60 million of U.S. dollar reserves for gold, and many other nations followed suit. By March 1968, gold was flowing out of the United States at an alarming rate.

By 1950, U.S. depositories held more gold than had ever been assembled in one place in world history (roughly 702 million ounces). But to manipulate our currency, the U.S. government was willing to give away more than half of the country's gold.

It's estimated that during the 1950s and early 1970s, we essentially gave away about two-thirds of our nation's gold reserves... around 400 million ounces... all because the U.S. government was trying to defend the U.S. dollar at a fixed rate of \$35 per ounce of gold.

In short, we gave away 400 million ounces of gold and got \$14 billion in exchange. Today, that same gold would be worth \$620 billion... a 4,430% difference.

Incredibly stupid, wouldn't you agree? This blunder cost the U.S. much of its gold hoard.

When the history books are finally written, this chapter will go down as one of our nation's most incompetent political blunders. Of course, as is typical with politicians, they managed to make a bad situation even worse...

The root cause of the weakness in the U.S. dollar was easy to understand. Americans were consuming far more than they were producing. You could see this by looking at our government's annual deficits, which were larger than ever and growing... thanks to the gigantic new welfare programs and the Vietnam "police action." You could also see this by looking at our trade deficit, which continued to get bigger and bigger, forecasting a dramatic drop (eventually) in the value of the U.S. dollar.

Of course, economic realities are never foremost on the minds of politicians – especially not Richard Nixon. On August 15, 1971, he went on live television before the most popular show in America (*Bonanza*) and announced a new plan...

The U.S. gold window would close effective immediately – and no nation or individual anywhere in the world would be allowed to exchange U.S. dollars for gold. The president announced a 10% surtax on ALL imports! Such tariffs never accomplish much in terms of actually altering the balance of trade, as our trading partners simply put matching charges on our exports. So what actually happens is just less trade overall, which slows the whole global economy, making the impact of inflation worse.

Of course, Nixon pitched these moves as patriotic, saying: “I am determined that the American dollar must never again be a hostage in the hands of international speculators.”

The “sheeple” cheered, as they always do whenever something is done to “stop the speculators.” But the joke was on them. Within two years, America was in its worst recession since WWII... with an oil crisis, skyrocketing unemployment, a 30% drop in the stock market, and soaring inflation. Instead of becoming richer, millions of Americans got a lot poorer, practically overnight.

And that brings us to today...

Roughly 40 years later, the United States is in the middle of another currency war. But this time, our main adversary is not Europe, but China. And this time, the situation is far more serious. Our nation and our economy are already in an extremely fragile state. In the 1960s, the American economy was growing rapidly, with decades of expansion still to come. That’s not the case today.

This new currency war with China will wreak absolute havoc on the lives of millions of ordinary Americans, much sooner than most people think. It’s critical over the next few years for you to understand exactly what the Chinese are doing, why they are doing it, and the near-certain outcome.

A Decades-Long Plan

For more than 30 years, since the start of the country’s “Reform Era” in 1978, China has been selling (exporting) more goods than it has imported.

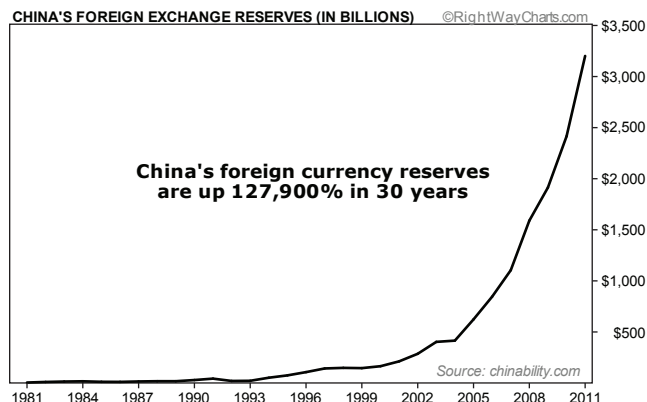
That’s allowed the nation to stockpile trillions of dollars – more money than our entire monetary base totaled before the recent financial crisis.

The way it works is simple to understand. When a Chinese business earns dollars by selling overseas, the law requires the company to hand those dollars over to the country’s central bank, the People’s

Bank of China (PBOC). The business gets Chinese currency (called either the “yuan” or the “renminbi”) in return, at a fixed rate.

There’s nothing fair about this. The Chinese people do all the work, and the Chinese government keeps all of the money. But that’s the way it goes.

At first, the dollar inflow was small because trade between the two countries was tiny. In 1980, for example, China’s foreign currency reserves stood at approximately \$2.5 billion. But since then, the amount of foreign currency reserves held by the Chinese government has gone up nearly every year... and now stands at \$3.2 TRILLION. That’s a 127,900% increase. It’s simply astonishing to look at the chart of the increase in currency reserves...



As I mentioned earlier, the group in China that manages these foreign reserves is called the State Administration of Foreign Exchange (SAFE). And for the past few years, SAFE has had one big problem: What to do with so much money?

SAFE decided to use most of these reserves to buy U.S. government securities. As a result, the Chinese have now accumulated a massive pile of U.S. government debt. In fact, about two-thirds of China’s reserves remain invested in U.S. Treasury bills, notes, and bonds. The next biggest chunk is in euro. Of course, all this money is basically earning nothing to speak of in terms of interest... because interest rates around the world are close to zero.

And while the Chinese would love to diversify their holdings and ditch a significant portion of their U.S. dollar holdings, they are essentially stuck. You see, if the Chinese start selling large amounts of their U.S. government bonds, it would push the value of those bonds (and their remaining holdings) way down. It would be like owning 10 houses on the same block in your neighborhood... and deciding to put five of them up for sale at the same time. Imagine how much that would depress the value of all the properties with so much for sale at one time.

One thing China tried to do in recent years was speculate in the U.S. stock market. But that did not go well... The Chinese government bought large amounts of U.S. equities just be-

fore the market began to crash in late 2007. It purchased a nearly 10% stake in the Blackstone Group (an investment firm)... and a similar stake in Morgan Stanley. Blackstone's shares are down about 46% since the middle of 2007, and Morgan Stanley is down about 70% since the Chinese purchase.

The Chinese got burned big time by the U.S. equities markets and received a lot of heat back home. They are not eager to return to the U.S. stock market in a meaningful way. So China's U.S. dollar reserves just keep piling up in various forms of fixed income – U.S. Treasury bonds, Fannie and Freddie mortgage bonds, and other forms of debt backed by the U.S. government. These investments are considered totally safe – except that they're subject to the risk of inflation.

According to a statement by the government: "SAFE will never be a speculator. It mainly seeks to protect the safety of China's foreign exchange reserves and ensure a stable investment return."

If the Chinese won't buy stocks and the only real risk to their existing portfolio is inflation, what do you think they will do to hedge that risk?

They will buy gold... lots and lots of gold.

It was no surprise to us when, in 2011, China became the No. 1 importer of gold. For many people in the gold market, this was a big shock – India has *always* been the world's leading gold buyer. In India, people traditionally save and display their wealth in gold. Their entire financial culture is based on gold. Historically, silver has played the same role in China... but not anymore.

In fact, not only has China become the world's leading importer of gold, it was already the world's leading producer... by far. According to the most recent figures from the World Gold Council, China produces nearly 50% more gold (about 300 tons per year) than the second-place country... Australia. And guess what? Every single ounce produced in China – whether it's dug out of the ground by the government or a foreign company – must, by law, be sold directly back to the government.

The Chinese are now clearly on a path to accumulate so much gold that one day soon, they will be able to restore the convertibility of their currency into a precious metal... just as they were able to do a century ago when the country was on the silver standard.

The West wasn't kind to China back then. The country was repeatedly looted and humiliated by Russia, Japan, Britain, and the United States. But today, it is a different story...

Now, China is the fastest-growing country on Earth, with the largest cash reserves on the planet. And as befits a first-rate power, China's currency is on the path to being backed by gold. China desperately wants to return to its status as one of the

world's great powers... with one of the world's great currencies. And China knows that in this day and age – when nearly all governments around the globe are printing massive amounts of currency backed by nothing but an empty promise – it can gain a huge advantage by backing its currency with a precious metal.

As the great financial historian Richard Russell wrote recently: "China wants the renminbi to be backed with a huge percentage of gold, thereby making the renminbi the world's best and most trusted currency."

If you doubt this is what the Chinese are doing, I suggest you take a look at a cable that was leaked by the U.S. embassy in Beijing on the nonprofit website Wikileaks last year. This cable was prepared by the U.S. Embassy in Beijing and was sent back to officials in Washington, D.C. The embassy was commenting on a recent report by China's National Foreign Exchanges Administration. The cable quoted the China administration as follows...

China's gold reserves have recently increased. Currently, the majority of its gold reserves have been located in the U.S. and European countries. The U.S. and Europe have always suppressed the rising price of gold. [The U.S. and Europe] intend to weaken gold's function as an international reserve currency. They don't want to see other countries turning to gold reserves instead of the U.S. dollar or euro.

Therefore, suppressing the price of gold is very beneficial for the U.S. in maintaining the U.S. dollar's role as the international reserve currency. China's increased gold reserves will thus act as a model and lead other countries towards reserving more gold. Large gold reserves are also beneficial in promoting the internationalization of the RMB [China's currency].

Do you see where this is all heading?

A century ago, China used silver to back its currency. Today, it has chosen gold... And it is basically buying up the world's gold supply. China is essentially now attempting to "corner" the gold market.

Just remember... No gold mined in China... not a single ounce... is allowed to leave the country. It all goes to the government's reserves. Yes, the Chinese government allows foreign companies to enter China and form joint ventures with local Chinese firms. And foreign companies are free to mine as much gold as they want in China... But every single ounce must be sold to the Chinese government at current market prices. So the government is piling up every ounce that's mined in China... at least 9.6 million ounces a year (the equivalent of 300 tons).

And that's just the beginning...

I can also say with near-100% certainty that China is

secretly buying massive amounts of gold from the International Monetary Fund and other sources. I feel confident about saying this because it's exactly what the Chinese did from 2003 to 2009. If you remember... in 2009, China suddenly announced that its gold holdings had risen by 75% because of secret purchases that took place over six years. These purchases moved China into sixth position on the list of countries with the most foreign gold reserves. But keep in mind, even with these giant purchases, China's gold holdings still account for less than 2% of its foreign reserves. That's a pittance when you compare it to places like the U.S. and Germany, which hold more than 70% of their reserves in gold.

There's no doubt in my mind that China will continue to buy huge amounts of gold.

Just over a week ago, news outlet Bloomberg reported mainland China bought 3.6 million ounces of gold from Hong Kong over the past few months... that's 483% more than during the same time the year before. The data come from the Census and Statistics Department of the Hong Kong government. The Chinese government does not make such information public.

In fact, the Chinese have not announced a single gold purchase since 2009. But when you look at the massive amounts of gold "disappearing" from the world markets, it's obvious the Chinese must still be buying. As the newswire Reuters recently suggested in an article that detailed the sale of 150 tons of gold to "unnamed" buyers, "Among the most likely candidates is China, which has the largest currency reserves... at \$3.2 trillion."

When you are buying this much gold, it's almost impossible to keep the entire thing secret. That's why many stories of China's secret purchases have been mentioned in the mainstream press. For example, CNN Money interviewed Boris Schlossberg, director of currency research at Global Forex Trading, and reported that...

China is considered a stealth buyer of gold... As the world's largest producer of the metal, China often buys gold from its own mines and doesn't report those sales publicly. Analysts suspect the country is continuing to buy gold and could in fact, be the world's largest buyer consistently. It simply doesn't reveal its pro-gold stance... Announcing an aggressive gold buying spree is not in China's best interest because, for one, it might push gold prices higher. Secondly, it could devalue the U.S. dollar, which would subsequently lessen the worth of the country's portfolio of U.S. government bonds.

This is why the *Mining Journal* said last November that it expects China to amass some 5,000 tons of gold over the next five years. I would not be surprised if it amasses twice that amount. As CNN explained, "The thing to remember here is that if China is going to continue to purchase massive amounts

of gold, the last thing they want to do is make this information public, until they really have to. The less they say, the cheaper the price they'll have to pay."

I recently interviewed the most successful gold and silver investor in the world, Eric Sprott, on this subject. Eric is a billionaire, who made much of his fortune in silver. He runs Sprott Resource Management, one of the world's largest resource investment firms. Here's what he told me...

I'm sure China's buying gold. I just have no doubt that it's the most logical thing in the world that they would be buying gold. They're seeing their value of their Treasuries declining almost every day now with the weakness of the U.S. dollar. They are losing a lot of money, and they see the gold price essentially go up every day. Well, it's not a difficult decision to say, "Well, we should be buying gold and getting rid of dollars." That's got to be the easiest call in the world.

Now... while I might not be able to technically prove that the Chinese are buying millions of ounces of gold bars, I can prove they're buying plenty of gold out of the ground. The Chinese government is now in the process of secretly buying up part or all of dozens of the best gold mining companies around the globe.

One of the biggest recent purchases was by the government-owned Shandong Gold Group (the second-biggest producer in China), which made an offer to purchase Jaguar Mining for \$785 million in cash – that's 77% more than what Jaguar is now worth in the markets.

Keep in mind... This is the biggest premium EVER paid for a large gold mining firm. Before that, state-owned Zijin Mining Group (China's biggest gold producer by market value) said it would spend as much as \$1.6 billion a year on acquisitions. Last year, the company bought 17% of Australian gold miner Norton Gold Fields and a 60% stake in gold company Altynken.

And these are only the deals the government WANTS to make public.

The government also has kept a slew of investments in the gold markets private and secret. You see, few investors realize the government's China National Gold Group (CNGGC) makes little information public on its most sensitive purchases. For example, CNGGC has many aliases, including its 40% stake in China Gold Intl. Resources (TSX: CGG) and may have more than 300 secretive investment stakes in various gold mining companies around the globe. With a tremendous amount of digging in recent months, we've been able to locate the Chinese government's significant equity stakes in dozens of junior gold mining stocks.

The point is, when you look at the gold China already has in reserve... and look at what it controls that's still in the ground... the Chinese might already have more gold than any other nation on Earth.

But even these resources don't guarantee China control of the market. To really control the market for gold, the Chinese must establish the world's leading exchange – and regulate it honestly. Today, the global price of gold is largely controlled by just five “bullion banks” in London. These banks establish the price twice a day by offering to buy or sell gold at a fixed price. The world's other markets operate largely off these prices.

Manipulating the price of gold (and thus the value of other major currencies, like the U.S. dollar) is possible by influencing those five bullion banks: Bank of Nova Scotia, Barclays Capital, Deutsche Bank, HSBC, and Societe Generale.

Whether that's happening right now or not, I can't say. But it is a matter of public record that the world's eight leading governments conspired from November 1961 until March 1968 to suppress the price of gold by using their central banks to manipulate the London bullion market. So it has happened before.

Meanwhile, the trading range of the gold price *suggests* that the market continues to be heavily manipulated. Why do I believe that? Because as a precious metal with no yield, gold should be a fairly volatile asset – like silver and platinum are. But when you look at how many times the price of gold moves by more than 5% in a day, you find that it *almost* never happens.

Over the last 10 years, the price of gold has moved up or down by more than 5% on only 10 occasions. The same volatility has occurred in silver 80 times. It has happened in oil 137 times.

No explanation other than manipulation can account for gold's exceptionally low volatility. It simply doesn't trade like a free-market commodity.

One thing is certain: The Chinese government's attitude toward gold has changed completely. For decades, Chinese citizens were barred from owning physical gold under penalty of imprisonment. Then in September 2009, China became the only country in the world to promote gold ownership to its citizens. The government started a major campaign to encourage all citizens to buy gold. Locals can now buy gold bars, which come in four sizes, at ANY Chinese bank in the country. If you don't think that's unusual, try buying gold at ANY bank in the United States and watch the funny look you get from the teller.

The Chinese government has also set up thousands of gold “stores” around the country... which look like jewelry stores, but instead sell bars of gold.

As *Forbes* recently reported at the scene of one such gold store...

The crowds surge shoulder to shoulder inside Beijing's Cai Bai store to buy 5 to 10 gram slivers of gold and jewelry of every size and shape. It's one dramatic example of the gold craze in China, which is officially and unofficially promoted by the Communist government... And it is an integral part of the pro-gold preference by the Chinese public and its government.

My friend Simon Black – who wrote about geopolitical, expatriation, and wealth issues on his Sovereign Man website – also visited one of these Chinese gold stores on a recent trip, and said...

On the inside, these gold stores look like jewelry shops – armed guards, glass viewing cases, etc. But instead of diamond crusted earrings and white star sapphires, you see bars. Lots of bars. The government mints bars in sizes ranging from 5 grams (which are so tiny they're actually cute) to 1 kilogram. The prices are updated instantly – they have a Bloomberg screen that tracks the spot price... and the bars are all serialized and [offer] 0.9999 purity, the same as you would get from Switzerland. They are also certified by the gold exchange, which validates the quality.

We went into several stores and saw Chinese people buying like crazy... all with cash. The most popular denominations were 10 grams and 50 grams, as well as every piece of jewelry in sight. I'm surprised the mint shops didn't sell out [as] the inventory was flying off the shelf.

Why would the Chinese government set off a frenzy for gold?

Well, here's one thing to remember... the Chinese government doesn't pay much attention to human rights or property rights. It could demand all of its citizens' gold at any time – just like FDR did in the U.S. back in 1933.

But all of these facts are just hints about what's to come. The real story won't be unveiled until June. That's when China will open something called the Pan Asia Gold Exchange (PAGE). This is a direct competitor to the London Metals Exchange and the COMEX in New York.

The way things work right now, the futures market in London “fixes” the spot price of gold each morning and afternoon, based on trading in London and on America's COMEX market. But both of these markets back gold contracts with only 10% of the actual metal. The new China PAGE market is expected to have a much larger gold backing and could change the way gold is traded.

As James Turk's GoldMoney site recently reported: “The potential effects cannot be underscored enough – PAGE is

clearly preparing the world for a Chinese world reserve currency, and is doing this by bringing gold, and by extension silver, back into the Chinese economy.”

Forbes wrote about the development...

It means the spot market in gold could be headed for China – and away from London’s Metals Exchange or the Comex in New York. It also means that the Chinese currency – not dollars – will for the first time become the ruling currency used in one of the major speculative commodities of our age. All eyes will be on the influence of the gold trade in China rather than New York, London, Switzerland, or South Africa.

For several years, we’ve been warning about the loss of world reserve currency status for the U.S. dollar. We have worried about our currency because we understood the propensity of governments to steal from their citizens through inflation. With roughly half of our national debt held by foreigners, we have long believed efforts to print away our obligations will prove catastrophic for America’s leading international position – and most especially for the role of our dollar as the world’s leading reserve currency.

But until recently, we were unsure of the exact mechanism by which the dollar would be replaced. Now, we see how it will unfold...

The Chinese will slowly hedge their exposure to the dollar by becoming the world’s leading gold investors. By taking over the world’s gold markets and building a huge stockpile of gold, they will be able to back their currency with the world’s traditional form of money.

Once they are ready to make the yuan freely convertible, they will have created tremendous demand for their bonds and bills by making their currency the world’s most reliable... and the only one backed with gold.

The impact on the dollar could be catastrophic... And every day the dollar falls, China’s gold stockpile will grow more valuable (and more powerful).

What To Do Now with Our Portfolio

As I look around at the world economy today, I see two dominant trends in place. First, the major Western economies are being impoverished by their debts and struggling to avoid a collapse via desperate attempt to print their way out of perdition. Second, I see the rise of the world’s largest future economy that’s in the midst of a massive effort to buy gold and control its global market.

These two trends will become much more apparent to world markets this year. So after urging extreme caution since

February 2010, **I am now ready to take several aggressive steps to capitalize on what I believe will be a “frothy” year in the markets – particularly in commodities.**

This year will be dominated by surges in economic activity around the world, on the heels of massive monetary stimulus. I want to reposition our portfolio from extremely bearish back to the long-inflation bias we had prior to February 2010. It’s time to get long commodity-related stocks – gold, silver, and oil. It’s also time to start preparing for what’s likely to be a massive increase in inflation.

My colleague Dr. Steve Sjoggerud has discovered an amazing trend between stock market collapses and commodity prices. As Steve explained in a 2003 issue of his newsletter, *True Wealth*...

By coincidence or not, each major stock market peak of the 20th Century was followed by a crash in the U.S. dollar five years later. People who kept their savings in dollars saw the purchasing power of their savings shrink substantially... Four years after the peak of ’29, FDR closed the banks and made it illegal for private citizens to own gold. In January 1934 – five years after the bubble – he devalued the dollar, crushing people’s savings. Commodity prices had triple-digit rises in the mid-1930s and speculators once again made a fortune... The same thing happened five years after the market peaked in the late 1960s. Five years later, Nixon took the dollar off the gold standard (this time for good). Commodity prices soared for the next ten years, with the price of gold reaching \$850 an ounce by the time it was over.

Although Steve couldn’t have known it for certain at the time, his hypothesis that America was on the verge of a collapse in the dollar was exactly right. The 2000s-era mania in commodities began in the spring of 2005, almost exactly five years after the previous top in stock prices. The price of oil, for example, went from \$40 in early 2005 to more than \$140 by mid-2008. In early 2005, gold traded for a little more than \$400 per ounce. By early 2008, gold was near \$1,000 per ounce.

We had another stock market top in October 2007. According to Steve’s theory, we should expect another raging bull market in commodities (and a plummeting U.S. dollar) to begin in the fall of 2012.

And given the amount of monetary stimulus we saw following 2008’s economic collapse plus the steps China seems to be taking to protect its massive U.S. dollar holdings... this next round of inflation has the potential to not only send commodity prices up by hundreds of percentage points, but as we’ve been predicting, to cause the collapse of the exchange value of the U.S. dollar.

It's time to get out of the dollar... for good.

Our strategy to protect ourselves and profit from this coming crisis is pretty simple.

Step No. 1: We want to be long gold and silver. That means owning physical bullion. It means rare collectible coins, when they can be bought at small premiums (like less than 10%). It also means gold and silver stocks.

Yes, I know, gold stocks have been in a terrible bear market and seem to have lost all contact with the gold price itself. That will reverse this year. *Gold stocks will vastly outperform the metal in 2012.*

Buy the Market Vectors Gold Miners Fund (NYSE: GDX) up to \$60. GDX is an exchange-traded fund that holds a basket of gold mining stocks, including industry heavyweights like Barrick Gold, Newmont Mining, and AngloGold Ashanti.

Buy Royal Gold (Nasdaq: RGLD), the highest-quality gold royalty company in the world, up to \$80.

And buy a few junior gold mining companies, just to have some exposure to the huge upside potential of this market.

Note: We don't cover junior mining stocks in this letter. Analyzing them requires geological expertise that I don't have and sacrifices, like traveling the world, that I can't afford with a young family. Additionally, given the number of subscribers to this advisory, it would be impossible for me to recommend any junior miner with enough trading liquidity to be useful to us.

Instead, I recommend you consult Stansberry Research's in-house geology expert Matt Badiali, who covers junior miners in our *SC&A Resource Report* and/or Doug Casey, who founded Casey Research and has followed these stocks for 40 years. I also recommend you buy a basket of no less than five precious metals stocks. They will be *unbelievably* volatile. And if we're wrong about our inflation scenario, they will all go to zero.

Allocate roughly 20% of your portfolio to gold and silver, with half of your stake in bullion. That should leave you with 10% of your portfolio for gold and silver stocks, like Silver Wheaton, GDX, Royal Gold, and the junior miners you select.

Treat your gold and silver holdings as an asset block. *Use a trailing stop on the value of the entire block.* You want to treat these assets as one position because the gold mining stocks will be far more volatile than the metal. This approach should allow your gold stocks the room they need to rack up big, big gains.

Step No. 2: We want to own economically sensitive, trophy-like properties in the United States. We recommended BNSF railway coming out of the last big deflationary scare in 2009, before legendary investor Warren Buffett bought us out six months later.

Since BNSF is no longer an option, we'll go with the next best thing...

Buy Union Pacific Corp. (NYSE: UNP) up to \$125. The \$34.4 billion railroad is well run, has a fortress balance sheet (\$1.65 billion in cash), and is trading for less than 10 times cash earnings.

It also holds lots of debt. This might sound surprising to many readers who have heard me rail against heavily indebted businesses. But in an inflationary scenario, these debts become something like assets because they're cheap capital that becomes cheaper relative to the higher future interest rates.

It's important to understand... buying debt-laden companies is risky. Not every indebted firm will turn out to be a good buy. You've got to make sure its assets are valuable and likely to become more valuable in the future – and that's certainly the case here.

Step No. 3: We want to own energy – and that means oil companies. Fortunately, we have some special insight on this point...

There is a major new shale play that's only now being staked out by the major independent oil companies in the United States. Based on information I have, I believe this new field will become the second-largest oilfield in the United States over the next 20 years (second only to the Eagle Ford). I base this statement off test wells that have been dug, the size of the shale (according to seismic data), the total organic carbon (TOC) of the shale's core samples, and the proximity of an existing major oilfield. For now, you'll have to take my word for it, because I have agreed not to name the shale or disclose where it sits...

My contacts in the oil business are currently buying leases and royalties in the play, which has gone completely unreported by any major newspaper or oil industry magazine. We are in this story at its infancy. The two major independent companies with large acreage in the field today are **Chesapeake Energy Corporation (NYSE: CHK)** and **EOG Resources (NYSE: EOG)**. Both companies have operations in all or most of the major U.S. shales and have proven to be the best large independents at getting large-acreage positions in emerging shale plays – as is certainly the case here.

While paying two times book value for EOG is difficult for me to recommend, I think the \$27.9 billion exploration and production company is sitting on a giant field that no one knows about yet, which is a good enough reason to buy the stock.

Meanwhile, \$13.2 billion Chesapeake is trading at book value – and there's no doubt in my mind that the official book value greatly underestimates the real value of its existing reserves, never mind the total value of this huge new field.

Buy Chesapeake Energy (NYSE: CHK) up to \$25, and

Buy EOG Resources (NYSE: EOG) up to \$120.

Use a 25% trailing stop loss on the *combined* position.

Step No. 4: We want to short U.S. Treasuries. I know this will be hard for some of you to swallow because this trade has not worked out for me in the past... But a collapse in the U.S. Treasury market is 100% certain, in my view. That is the only logical result of the U.S. Treasury's actions and China's machinations in the world's gold market.

I continue to believe that the best trade in the world is to be long gold and short long-term U.S. Treasury bonds. The chart below shows you how that trade has worked since roughly the start of the financial crisis in 2008...



Last year, Treasuries rose 30% as Europe blew up, causing the world to flee into the dollar. Gold was up "only" by 20%. This year, the short Treasuries trade will return to form. Treasuries will plummet as inflation soars and the economy ends up being far stronger than anyone currently expects.

Sell the iShares Long-Term Treasury Fund (NYSE: TLT) short when it's trading more than \$100 a share. Use a 25% trailing stop loss.

If the Treasury market doesn't tank this year... I'll eat my hat.

Step No. 5: We want to own companies that have lots of economic goodwill – meaning we want to own companies that are capital-efficient and protected from inflation because they don't require major capital investments. Of course, we always want to buy these kinds of companies

when they trade at reasonable prices.

See our October 2011 recommendation of **Activision/Blizzard** for an example, or read our write-up of **Hershey** from back in 2007. There's never a bad time to buy a great business that's trading at a great price. We are upgrading several of our favorite companies in anticipation of better-than-expected earnings, thanks to the ongoing inflation.

In closing this month... I'd just like to say "thanks." The past year has been a tumultuous period for the market, our country, and my business. Writing this advisory is the second-greatest honor in my life, after my family. I am deeply humbled by the trust and the regard you have for my work. We received close to 10,000 e-mails in response to last month's issue where I described the "Corruption of America."

I know that like me, many of you are worried about the future of our country – in particular, the risks we face because of the recklessness of our financial policies. I'll continue to do everything I can to make sure that we're protected... but I expect these problems will soon come to a head. Make sure that you've got some bullion tucked away – just in case.

Good investing,

Porter Stansberry
January 20, 2012

P.S. A short portfolio note... Shares of First Solar have been climbing lately, up almost 15% since the start of the new year. As you know, I think solar energy is fatally flawed, and this stock is ultimately doomed. Regardless, the recent price increase triggered our stop loss. We closed the short position on January 10, when shares closed at \$38.77, for a 31.9% profit.

Stansberry's Investment Advisory Model Portfolio

Prices as of January 19, 2012

	Symbol	Ref. Date	Ref. Price	Recent Price	Dividends	Description	Action	Return*	Risk
"No Risk"									
Wal-Mart	WMT	09/09/10	\$51.91	\$60.61	\$1.76	World dominator	Buy	20.2%	2
Johnson & Johnson	JNJ	07/06/06	\$60.52	\$65.19	\$10.46	World dominator	Buy	25.0%	2
Exelon	EXC	10/09/02	\$21.47	\$39.50	\$15.72	Nuclear power	Hold	157.2%	3
Hershey	HSY	12/06/07	\$40.55	\$61.65	\$5.04	World dominator	Hold	64.5%	2
The "Next Boom"									
ConocoPhillips	COP	04/02/09	\$41.45	\$71.27	\$6.23	Cheap oil	Hold	87.0%	2
Calpine	CPN	05/13/10	\$13.93	\$15.17		Nat gas power	Hold	8.9%	2
Silver Wheaton	SLW	12/01/10	\$37.90	\$30.67	\$0.18	Silver royalties	Buy	-18.6%	5
Monsanto	MON	11/18/10	\$59.63	\$80.35	\$1.44	Soaring food	Hold	37.2%	5
San Juan Basin	SJT	01/07/10	\$18.34	\$18.36	\$3.13	Cheap energy	Hold	17.1%	5
Dominion Res.	D	07/18/11	\$48.00	\$50.30	\$0.99	Export LNG	Buy	6.8%	2
Silver*	SLV	08/11/11	\$34.10	\$29.74		Inflation hedge	Buy	-12.8%	2
Activision Blizzard	ATVI	10/13/2011	\$12.92	\$12.34		Gaming publisher	Buy	-4.5%	2
Teekay LNG Partners	TGP	11/17/11	\$32.72	\$36.31		LNG tankers	Buy	11.0%	3
Union Pacific	UNP	01/20/12	NEW	\$112.18		Trophy railroad	Buy	NEW	2
EOG Resources	EOG	01/20/12	NEW	\$105.08		U.S. oil exploration	Buy	NEW	3
Cheasapeake Energy	CHK	01/20/12	NEW	\$20.68		U.S. oil exploration	Buy	NEW	3
Gold Miners Fund	GDX	01/20/12	NEW	\$52.15		Gold Stocks	Buy	NEW	4
Royal Gold	RGLD	01/20/12	NEW	\$67.51		Gold Royalty	Buy	NEW	4
Victims									
UltraShort Euro	EUO	05/13/11	\$17.55	\$20.19		Debt crisis	Sell	15.0%	5
First Solar	FSLR	10/13/2011	\$56.85	\$38.70		Obsolete	Buy to Cover	31.9%	5
iShares U.S. Bond	TLT	1/20/2012	NEW	\$118.32		Failing currency	Sell Short	NEW	5
*Price adjusted by profits from selling January 40 calls									
Stansberry's Investment Advisory's Model Portfolio does not represent any actual investment result. Our reference price represents the price of our recommended securities at the time we wrote the recommendation. Our sell price represents the closing price at the time a reasonable reader would have had the opportunity to sell, typically the day after such a recommendation is given.									
Please note: Our investment philosophy requires limiting risk through the use of trailing stop losses. Unless otherwise noted, all recommendations use a 25% TRAILING STOP LOSS. NEVER ENTER YOUR STOPS INTO THE MARKET. KEEP SUCH INFORMATION PRIVATE.									
How to use a trailing stop: A stop loss is a predetermined price at which you will sell a stock in case it declines. A "trailing stop" is a stop loss that "trails" a stock as it rises. For example, let's say you set a 25% trailing stop on a stock you purchase for \$10. If the stock rises to \$20, you would move your trailing stop to \$15 (\$5 is 25% of \$20, \$20 - \$5 is \$15). Only use closing prices, and never enter your stop into the market. For more information, see our frequently asked questions at www.stansberryresearch.com/secure/faq.asp .									
Our risk label is based on current share price and one-year business outlook. 1 = the lowest possible risk. 10 = the highest possible risk.									

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