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## Who's Been Sitting on My Gold Stocks?!

by Alex Wallenwein

**Mama, Papa, and Baby Bear are back from their walk in the woods. They find the goldilocks economy sitting on their gold stocks and unceremoniously decide to eat her. End of story.**

The bears are on the loose in goldilocks country, the place where fairy tales of a "new economy" were once sold to unsuspecting investors. As usual, stories change, depending on whoever gets to live to tell them. Alas, Goldilocks will not be among those.

Funny that the people who christened the final years of the Clinton administration the "goldilocks economy" somehow didn't remember how the story ends. Depending on which version you read, the cute little blonde girl ends up either fleeing in terror - or being reduced to bear-porridge protein supplement..

Reality, however, has a way of making sure she is not ignored for very long, and that goes just the same for reality's younger sister, *economic* reality. That younger one is now mad as hell and won't take it lying down any longer. The deluded, deaf and dumb American public has finally gotten to her. She is currently inhaling, preparing to let out an ear-piercing howl that will rattle even the most fiat-deluded investor's ear-drums to the core.

Yet, there are still those who think they can simply "sit" on the bubbling volcano that the major gold stocks have now turned into. They think they can just fan away the revealing wisps of smoke that emerge around their buttocks, hoping no one will guess at what's building up in the magma chambers just below. When mother earth gets done with her buildup, the goldilocks brigade will wish there were really only a couple of hungry bears chasing them down.

### Recent Daily XAU Action

Recent action in the XAU confirms that someone has indeed been doing some sitting on them, and the tracks left behind are suspiciously looking like the butt-prints of the goldilocks camp.

The XAU had a huge breakout, just as predicted, only to be brought back down nearly to its origin where the blue 50-day moving average has simultaneously touched and bounced back from the red 200-day MA:



By the time this is published (Tuesday, July 15th), the XAU has already pierced its head deep into the heavy resistance zone between 198 and 205, which is not shown on the chart above and was repelled again, this time as the result of Bernie talking tough on inflation again, temporarily boosting the dollar as a result of ditching commodities.

### XAU Intra-Day Action:

Similarly, during intra-day action late last week and including the earlier part of today, obvious butt-prints are discernible. On the days in question, gold rose, and the XAU and HUI either initially rose and then got capped, or got knocked back down.

#### US DOLLAR INDEX:



#### GOLD:



#### Philly Gold & Silver:



#### SILVER:



#### AMEX Gold Bugs:



There are more instances of this kind of action, but we won't show them all here to save space.

It just makes no sense at all for the gold stock indexes to follow the dollar down while gold is rising. The suspicion accordingly arises that the same ravenous crowd of naked short-selling predators has been unleashed on gold stocks at a critical time when mainstream investors are getting squeezed out of their favorite paper-toys because they keep falling and falling.

For the gang wearing the naked shorts, it's so easy to fool retail investors: just buy interest rate futures to create an illusion of demand for US treasuries that makes the brain-dead mainstream traders and fund managers follow suit and go long treasuries, so that retail investors think there is a "flight to safety" happening while the Dow and NYSE are tanking. Thus, they predictably follow the crowd. Simultaneously call up your friends in the financial press assigned to the "rates and bonds" beat to sell them the story so they in turn can re-sell it to Mr. Retail Investor, and - voila! The flight to safety is diverted away from what is really safe toward that which has unfounded liabilities of \$54 trillion hanging over its head, namely long term US treasuries.

For, even though gold is going up, those who are just waking up from their investment-opium stupor are not ready to go out and buy physical gold. Not yet. They are staying in circles familiar to them. Stocks are stocks. Most other companies are going down, but gold stocks are going up alongside the metal, so hey, all it takes is a call to their broker or a few familiar mouse clicks in already familiar online places, and the remaining wealth is parked in precious metal stocks.

That, more than anything, is to be avoided at all cost by those who hold sway over our managed markets: mainstream investors fleeing to precious metals stocks. If that happens in large numbers, it will be their end.

## Hindquarters in Frantic Action

Well, the end is coming anyway, and the handlers of the naked short sellers are too busy putting out other fires they have inadvertently started elsewhere. No more time for sitting on anything, much less gold stocks.

On Monday, July 14th, they had no time to mind the gold stocks. All hands were required on deck to keep the banking-failure dam from breaking. The priority of the day now is to assure twitchy investors with twitchy mouse-clicking fingers that the hair-trigger by which their life's savings are dangling over the abyss is "perfectly sound."

If the quoted upper range of the number of billions by which the FDIC is now into the IndyMac deal is correct (\$8 billion), then there are only 44 of the FDIC's original \$52 billion of assets left. And that's only *one* failure!

Talk prevails regarding the possible coming failures of WaMu and Wachovia. Wachovia's total consumer real estate net charge offs exploded from 70 million in 2006 to 250 million in 2007. The amount of its non-performing commercial assets more than quintupled during that time span from 319 million in 06 to 1.661 billion in 2007.

## The FDIC Feels "the Burn"

What's more, as a result of the IndyMac debacle, the FDIC has already burned through almost its entire portfolio of "available for sale" assets of \$8.5 billion, as per its 2007 annual report. The rest of the bulk of its assets (\$38 billion worth) is in the form of "held to maturity securities, i.e., treasury obligations. As the next few banks go rowing down the River Styx, these treasuries will have to be liquidated. Unless a couple of large enough buyers can be found who will buy this at an agreed-upon price, in strict confidence, a good chunk of that load will have to hit the open markets, and that will do a tremendous number on treasuries prices, making their yields jump.

And here comes the death ray:

Unless I completely misread the 2007 annual report, Wachovia's FDIC insured, non-interest bearing deposits alone totaled \$60.89 billion last year. That amount by itself will more than evaporate the FDIC's remaining balance sheet, if Wachovia were to fail.

Of course, there is no evidence at this point that Wachovia will indeed fail, but who knows what US Senator Chuckie Schumer is going to say next? His big blabbermouth has single-handedly brought down IndyMac. Before he opened his trap, IndyMac wasn't even on the FDIC's list of the 90 most troubled banks. Is he going to be slammed by the SEC for "rumor-mongering" - or is that honor reserved for regular pukers like you and me?

## The Real Culprit: The American Taxpayer

Once the FDIC has burned through its paltry asset base, the Fed will have to step in, courtesy of the US taxpayer, of course - and why not? "The taxpayer" may have been paying taxes, but he obviously hasn't paid any attention for the last several decades. The taxpayer's servants have taken over the household and are holding him at gunpoint while they're raiding the till. Worse, he even handed them the guns they are now pointing down his gullet.

As the saying goes, "you snooze, you loose!"

Mr. Taxpayer can blame only himself. Maybe this economic stranglehold will do its part in waking him up. Maybe not. Fact is that nothing in this country happens without his tacit consent.

The Federal Reserve Act was passed by Congress. Congress continues to be re-elected with an 85 to 95 percent incumbency rate, including people like Chuckie Schumer. And who keeps on re-electing these guys? Take a look in the mirror.

Owning gold and silver only works if you are allowed to buy, own, and spend it. Congress makes the laws that determine whether or not you can buy, own, or spend these metals. Are you afraid of another gold confiscation? Has your Congressman/woman supported Ron Paul's Honest Money Act? That may be a good start in making your voting decisions this November.

In the end, whoever is doing the sitting on gold stocks is doing it with the tacit consent

of Americans who fail to inform themselves - as well as the consent of those who *are* informed, but who *fail to act*.

*By the way: tomorrow will likely be another down-day for gold.*

Got gold?

By itself, it's not enough.



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