

Excerpt from the January issue of the *Casey Gold & Resource Report*

2010: The Big Picture

We love gold – but what about the economy, U.S. dollar, and inflation? And how does one invest with these potential headaches in mind? We asked a distinguished panel of economists, authors, and advisors what they expect for 2010. Equally as impressive as their bios was the foresight of these widely recognized experts in warning of the problems we are now experiencing. Caution: strong opinions ahead...

Jim Rogers is a best-selling author, investor, and American expatriate. He was a co-founder of the Quantum Fund, a wildly successful hedge fund, and creator of the Rogers International Commodities Index (RICI).

Marc Faber is president of Marc Faber Limited, an investment advisor, fund manager, and broker/dealer based in Hong Kong, and publishes the widely read newsletter *The Gloom, Boom and Doom Report*. He is the author of several books, including best-seller *Tomorrow's Gold – Asia's Age of Discovery*, and a frequent speaker at investment seminars.

Bill Bonner is the president and founder of Agora, Inc, a worldwide publisher of financial advice and opinions. He is also the author of the Internet-based *Daily Reckoning* and a regular columnist in MoneyWeek magazine.

Jeffrey Christian is managing director of CPM Group and a prominent analyst on precious metals and commodities markets. CPM Group produces a comprehensive yearbook on gold and silver and provides a wide range of consulting services. He published *Commodities Rising*, an investors' guide to commodities, in 2006.

Peter Schiff is president of Euro-Pacific Capital and is currently running for senator in Connecticut (see Schiffforsenate.com). He is the author of *Crash Proof; How to Profit from the Coming Economic Collapse*, and the recently released *Crash Proof 2.0*. He's a frequent guest on CNBC, Fox Business, and others.

David Tice is chief portfolio strategist of the Federated Prudent Bear Fund and the Federated Prudent Global Income Fund. He gained national recognition through articles he wrote for Barron's and was the subject of numerous business journals and television interviews at a time when few dared short the market.

Bob Hoye is chief financial strategist of Institutional Advisors, and writes *Pivotal Events*, a weekly market overview. His articles have been published by Barron's, Financial Post, Financial Times, and National Post.

Dr. Krassimir Petrov is an Austrian economist and holds a Ph.D. in economics from Ohio State University. He was assistant professor in economics at the American University in Bulgaria, then an associate professor in finance at Prince Sultan University in Riyadh, Saudi Arabia. He is currently an Associate Professor at Ahlia University in Manama, Bahrain. He's been a contributing editor for Agora Financial and Casey Research.

Clyde Harrison is a former pension fund consultant with past partnerships with both Jim Rogers and Carl Icahn. He's owned a seat on the Chicago Options Board Exchange and served as a bank director. He currently serves on the board of Golden Phoenix Minerals.

Ian Gordon entered the financial services industry as a broker in 1983 and started writing the *Long Wave Analyst* newsletter in 1998. He accurately predicted the beginnings of a major bull market in

gold in 2000, as well as the recent burst in the real estate bubble and the subsequent banking crisis. Today, Ian is a leading interpreter of the Kondratieff Cycle and continues to write his newsletters as the president of the Longwave Group.

Steve Henningsen is a partner at The Wealth Conservancy in Boulder, CO, assisting clients interested in “wealth preservation.” And as he cautions, prudently managing wealth these days “revolves around playing financial chess against the U.S. government – who keeps changing the rules.”

CGR: A lot of people, including the government, believe the worst is behind us economically. Do you agree? If not, what should we be on the lookout for in 2010?

Jim Rogers: It is for the moment, but wait till the next slowdown. You ain't seen anything yet. There will be problems in the currency markets in 2010, and more inflation.

Marc Faber: The worst is over for now. But the question is about the sustainability of the improvement in economic conditions and the distribution of the improvement. The economic condition for the median household in the U.S. is most likely not going to improve as unemployment stays high and as cost-of-living expenses continue to go up, leading to declining real incomes. For Wall Street and the financial-sector “thieves,” the outlook is bright, as profits flow to them and losses to the taxpayers.

Bill Bonner: The worst is still ahead. Stocks should crash. So should U.S. Treasuries, along with the economy itself.

Jeffrey Christian: Our primary economic outlook is that the worst is behind us. We are projecting real GDP growth in the United States of +2.8% for 2010, after a -2.5% contraction in 2009. Our secondary analysis has a more negative economic outlook, with a dip into renewed recession prompted by any combination of a series of domestic and international political developments, which could derail the fragile recovery now underway. The probability assigned to the more negative alternative economic scenario is higher than the probability assigned to such developments in the past, by which we mean that there is a greater chance that things could go wrong than in the past.

Peter Schiff: The worst is in front of us, by far. And the worst part of what's coming will be the currency crisis. The government has made mistakes – they prevented deflation, but that's what we needed. Rather than allowing the market to correct, they chose to stimulate by printing money. The currency crisis will be much more devastating than the credit crisis. We'll have much higher interest rates and much higher inflation, and when you add these on top of a recession, we'll get even higher unemployment. A lot of institutions that were bailed out will need bailing out again, and the U.S. government itself will need to be bailed out.

David Tice: I believe that we're in the “eye of the storm,” and we're about to experience another severe leg down. There could be a funding crisis for Treasury issuance ahead, or more quantitative easing, and certainly higher interest rates. We think the stimulus has caused a sugar high that's artificial, and we expect that the market will fall again in 2010, and the economy will worsen significantly. Unemployment will go substantially higher.

Bob Hoyer: It is very popular to believe that the worst is behind us – as it was on the huge rebound after the 1929 crash. There have been five previous great financial manias, and each was followed by a long credit contraction.

One feature of such a contraction is that the recession starts virtually with the start of the bear market. Typically, the market tops 10 to 12 months before the economy does. The Dot-Com Bubble burst in

March 2000, and the NBER [National Bureau of Economic Research] pegged the recession's start in March 2001.

The stock market peaked in September 1929, and the first recession started that August. The previous bubble completed in September 1873, and the NBER determined that the recession started that October. In our example, the stock market topped in October 2007, and the NBER marked December as the start of the recession. Close enough.

A good indicator that the contraction has resumed would be high-yield corporate bonds turning down in price, with the spread widening relative to long-dated Treasuries. Our technical research indicates this could happen soon. Another indicator would be the gold/silver ratio increasing above 66.

Krassimir Petrov: I'd say that the worst is yet to come. Yes, the government has inflated the previous (housing) problem by creating an even bigger and more dangerous bubble – the government finance bubble. When that bubble bursts, it will get real ugly. Investors should stay focused on two things only: the long bond and the dollar. When both start falling and start feeding on each other to the downside, then the financial markets will learn the true meaning of “ugly.”

However, calling for the bursting of the government finance bubble, like calling for the bursting of any bubble, is next to impossible: it can burst in two weeks, or two months, or two years. It is hard to say. I'll give it a 50% chance of bursting in 2010, and maybe a 45% chance in 2011.

Clyde Harrison: What you have to watch now is Washington D.C. The center of finance is no longer New York but Washington, and their decision this year was to borrow our way out of debt. It's never worked in the past, and it won't work now because they think they're smarter and speak more articulately. What you want to watch when they lose control of the markets is, first, the U.S. dollar... if the dollar index breaks below 70, it's a big warning sign, and gold will go wild to the upside; and second, the 10-year Treasury... if it goes above 4%, then you need to turn very cautious because that means we're going back into deflation and gold won't do much for awhile.

Ian Gordon: I certainly do not agree. Things are bad, but they are going to get a lot worse. It's the debt, that's all we need to know. These debt bubbles have occurred throughout history, and the end result has always been debt deflation. This debt bubble is without precedent. It is far bigger than all earlier bubbles and much more international in scope. Thus, the consequences are likely to be more catastrophic than those experienced following past debt bubble explosions.

So in 2010 we should anticipate that debt will be the principal issue, which will impact negatively both debt markets and equity markets around the world. The depression will worsen, with greater vocal opposition to government support of the principal architects of the problem, mainly the major banks and the central banks.

Steve Henningsen: No, for as my 10-year-old son even knows, you don't cure a debt problem with more debt. Although the “heart attack” stage is behind us, I believe we have several years of deleveraging left. This means slow growth (as compared to the past several decades) as consumers rebuild their balance sheets, while the government tries to hold up the financial system via FASB (Financial Accounting Standards Board) rule manipulation, bank coddling, socializing poor businesses, and in general, letting the Wall Street foxes rule the roost.

CGR: The U.S. government has printed an astronomical amount of money, and yet we have little price inflation. Do we start seeing a rise in inflation in 2010, or is it farther down the road?

Jim Rogers: Oh my. You believe the government numbers? Your butler does your shopping, but the rest of us know prices are up. Inflation will continue increasing for a good while.

[*As long-term readers know... no, we don't believe government numbers.]

Marc Faber: This all depends how you define inflation. There has been inflation in the sense that the purchasing power of the dollar has declined compared to foreign currencies and to commodities such as oil and copper. Consumer prices did not go up much, but insurance premiums, health care, and educational costs are all increasing rapidly. Moreover, all forms of taxation will go up. From sales taxes to salary withholding taxes and higher fees for any government services, people will pay more. Also, there is some inflation in the sense that for the same money you spend, you get less quantity of goods or less quality of services.

Bill Bonner: Inflation is probably further ahead than 2010... maybe several years ahead.

Jeffrey Christian: We see inflation remaining under control in the United States and project a 1.8% CPI in 2010, up from -0.4% in 2009. We have inflation rising to around 3.3% per annum by 2014, a 10% rise from the 3.0% rate averaged between 1990 and 2008. In other words, we expect U.S. inflation to remain under control for the next several years. There will be some upward inflationary pull due to higher commodities and raw materials prices, but expect this to be offset by disinflationary and even deflationary pressures in other sectors of the economy, including costs for labor and in segments of manufactured goods. We expect the monetary and fiscal stimulus programs to be effectively sterilized in terms of their long-term inflationary impact.

Peter Schiff: Government indexes are flawed. Even as we get higher prices, they won't all get picked up by their measurements. So yes, we'll start to see inflation in 2010. I think oil will be above \$100 by the end of the year, but overall, all prices will be rising. And if the dollar takes a precipitous drop, that would automatically mean higher prices.

David Tice: There's some pickup in reported inflation right now, with November CPI up 0.4%, but I expect the reported CPI to remain low for another year. When the market and the economy crash again, we'll see more deflationary pressures.

Bob Hoye: On the discussion between "inflation" and "deflation," it is best to go back to basic definitions. The classic on "inflation" is "an inordinate expansion of credit." The opposite still applies to "deflation," which is a credit contraction. Prices follow.

The natural rebound that follows a financial crash has just about run its course and "troubles" should soon resume. One of the features of a post-bubble contraction is the senior currency becoming generally firm relative to most commodities and most currencies for most of the time.

Most asset prices will weaken. When enough are declining, the Fed will be facing the old "pushing-on-a-string" problem and will be unable to drive the dollar down.

Krassimir Petrov: It may sound rather absurd, but the answer to this question is intimately linked to the answer of the previous question: price inflation will accelerate only when the dollar "collapses." You see, the U.S. has successfully exported its inflation abroad for decades, mostly in the form of rising foreign reserves, which have artificially propped the dollar and absorbed potential future price inflation. Price inflation will accelerate only when those dollars come home to roost, which implies selling those dollars on currency markets and a fall in the dollar index, or alternatively buying up U.S. goods (not stocks and bonds) and driving up price inflation.

Clyde Harrison: What I see coming is a combination of the 1966-1982 period in the markets and Japan's missing decade. In other words, stagflation. The government will take more and more of the economy's production, meaning net disposable income will decline rapidly. The inflation will come in the stuff we need: toilet paper, copper, energy, etc. Assets will barely break even after inflation – but the government will report there isn't any inflation.

Ian Gordon: To the contrary, I expect deflation to become far more obvious in 2010. The unwinding of a debt bubble is always deflationary. The debt bubble now unraveling is the biggest in history and means that deflation is going to be worse than it was in the 1930s. The inflation/deflation cycle runs for about 60 years, so I don't see any serious inflation until 2035 or so. The one thing that might be different this time is that the U.S. might face commodity price inflation should the dollar collapse, because all commodities are priced in dollars.

Steve Henningsen: I think we will continue to see both deflation and inflation as we did last year. Deflation in wages and housing, and inflation in things we need, like food and energy. I believe that we will begin seeing inflation take off towards the second half of the year, as the dollar continues its meandering to the floor. However, if the banks give up on the "carry trade" and start giving out loans again, then Katie, bar the door!

CGR: For the U.S. dollar in 2010, do you foresee it continuing to bounce, resuming its descent, or perhaps trading in a range? What's your long-term view of the dollar?

Jim Rogers: I suspect the rally will continue until we get a lot of bulls. Then the serious long-term decline resumes.

Marc Faber: The dollar should rebound more against the yen and the euro because these currencies might have even greater problems. However, long term I cannot see anything favorable for the U.S. dollar. The problem is that other paper currencies are not much better. Also, countries are increasingly using competitive devaluations to export their own problems.

Bill Bonner: Just a guess... but the dollar looks relatively good in the short run. There's a huge demand – thanks to federal government borrowing – and a restrained, if not falling, supply – thanks to deleveraging. Long term, the dollar is not a secure currency and not a place where you want to store wealth. It has lost 97% of its value in the last 100 years... it will probably take only a few years more to lose another 97%.

Jeffrey Christian: We expect the dollar's exchange rate to be extremely volatile in 2010, moving broadly sideways but with a small upward bias. It is not that we are bullish on the dollar but rather that we are more bearish on the economic prospects of Europe, Japan, and the United Kingdom, which are the producers of the alternative currencies. Thus, we expect the dollar to perform modestly well against these currencies. For the dollar to fall, these currencies would have to rise further than they already have, which seems far less likely to us.

We expect the dollar to fall against the Chinese yuan and would not be surprised to see a one-time official revaluation of the yuan at some point in 2010. We also expect the dollar to weaken against the currencies of commodities-exporting countries.

Peter Schiff: Resuming its descent. We may make it out of 2010 without a collapse of the dollar – that will probably come in 2011 – but it's coming. The stimulus buys us some time, but the economy is still going to get worse in 2010. Unemployment, interest rates, and inflation will all be higher, so things will gradually get worse until they get catastrophic.

David Tice: I see the dollar potentially rallying some for the short term, as the dollar-short is a crowded trade that could easily reverse. Longer term, over the next 3-5 years, I expect the dollar to continue to fall.

Bob Hoye: The Dollar Index could continue to rise until the first post-bubble recession ends. Technically, the Dollar Index has completed a bottoming pattern that has been a reliable indicator.

An intermediate rally could run into February and after some correction could prevail at least to mid-2010. This would be against most asset classes resuming their post-bubble troubles.

Krassimir Petrov: The long term is easy to predict: as long as Ben keeps bailing everybody out and Congress keeps spending like drunken sailors (I take great pride in coining the nickname “Helicopter Ben” and having it published first on the Internet), the long-term trend for the dollar is certainly downward. Yes, we are in the midst of yet another bear market rally for the dollar, which may be over soon. And yes, we may even get a second bear market rally late in the year. But the long-term trend is down. Timing the length of bear market rallies is best left to the very best and the fools.

Clyde Harrison: Currencies don’t float, they just sink at different rates. All we’re seeing in the dollar is a rally against the euro. You will not find that rally when you go to the grocery store or gas station. Washington will push the pain off into the future, which means they will print as long as they can get away with it. The dollar bear market will continue; we’re just in a short-term bounce now.

Ian Gordon: The problem is that all currencies are tied to paper and therefore are essentially worthless. It’s only a matter of deciding which is the worst currency. Unquestionably, that is the dollar, because the U.S. is by far the world’s largest debtor nation and is increasing its debt at \$2 trillion per year. That is not sustainable. The Federal Reserve can’t monetize all that debt, and creditors cannot be relied upon to continue to buy U.S. debt. In the long run, all money backed by paper is worthless. We’ll have to come up with a new world monetary system backed by gold and silver.

Steve Henningsen: If there is a sovereign debt problem, like I think there will be, then the dollar will trend higher in the short term, as the children run back to mother reserve currency. However, once they discover that mother wants to eat them, they will flee again, and the dollar will resume its long-term trend.

CGR: Gold has risen eight years in a row, yet some in the media remain skeptical. What’s your view of the big picture for the metal?

Jim Rogers: I own it and am not selling. I am not buying at the moment because of the big run-up. I hope I will be smart enough to buy more during the correction, as it will go over at least US\$2,000 during the next decade.

Marc Faber: When I look at pictures of Mr. Obama, Bernanke, Geithner, Summers & Co. and listen to the lies they regularly dispense, I shall hold on to my gold and keep on accumulating more. I also think that mining exploration companies are relatively attractive.

The U.S. government’s balance sheet is beyond repair, and this will necessitate more and more money printing. So, whereas we shall continue to see volatility, I think that the future of hard currencies such as gold, silver, platinum, and palladium is bright relative to paper currencies run by a bunch of largely destructive central bankers.

Bill Bonner: 2010 may not be a great year for gold. The yellow metal goes up most when inflation or the threat of it causes investors to worry, which is probably not in the cards this year. But the world monetary system is so fragile, an investor is well advised to keep accumulating gold as protection.

Jeffrey Christian: We expect gold prices to be strong in the first four months of 2010, possibly moving to a new record high above last year’s intraday \$1,227.50. After that, we project gold prices to decline – assuming our main economic scenario of stronger real economic growth persists over the remainder of the year. We do not expect gold prices to plunge, however, as we think investors and central banks will continue to add to their gold holdings as long-term investors, even and especially if

prices decline from current and projected high levels. We think gold prices may remain above \$950 – \$1,000 in 2010.

Peter Schiff: Gold will be up again. We could see \$1,500-\$2,000 this year, and ultimately it's headed higher than that. If the dollar crashes this year, look out.

David Tice: I believe that gold will go a lot higher. It might have a 15-20% pullback, but I expect it to go far higher over the next 3-5 years. I believe that the Dow and gold will eventually cross, and the level will be at least 2,500-3,000.

Bob Hoye: Until the credit contraction began in May-June 2007, gold's price increase was mainly due to dollar depreciation. Gold's real price has declined to an important low with every great financial bubble. We use our Gold/Commodities Index as a proxy for the real price, and it declined to a cyclical low in May 2007 and, appropriately, turned up as the credit markets turned down.

By this measure, gold has been increasing for some two and a half years against a probable increase of four years. Typically, gold's real price can increase until the great contraction completes, which has been around twenty years.

Krassimir Petrov: Gold's fundamentals are fantastic: monetization of massive deficit spending as far as the eye can see. Gold bugs are some of the most intelligent and sophisticated investors in the world, yet I am puzzled at their universal dislike for Ben Bernanke. Instead, gold bugs should thank Bernanke for making gold a superb long-term, low-risk, high-return investment in coming years. For fundamentals, I also look at the Dow-Gold ratio. It tells me that gold is still dirt cheap relative to financial assets; I expect the ratio to overshoot to below 1.

Clyde Harrison: Sell gold when *Time* magazine likes it. Right now gold stocks are as underpriced as they've ever been vs. the asset value in the ground. Gold is going much higher because they're going to print money.

Ian Gordon: Let's just say, how high does gold have to go to convince these stupid skeptics? And when they are convinced, perhaps that's the time to leave gold. Gold will continue to rise in value as long as the economic and debt problems persist. Given the initial response by governments to the problems, which is to create more debt, we would expect that the problems will persist for a long time and that people will continue to accumulate and hoard gold as a hedge against continued government ineptitude and the probable collapse of all paper assets including paper currencies.

Steve Henningsen: My view is to own it, which I have since 2003, and not think about it. All the reasons for owning the shiny one back then are still here today. My interest in gold and silver will fade once the skeptics are gone and there is no one left to call me a fool.

CGR: What's your best investment advice for 2010?

Jim Rogers: Buy low; sell high.

Marc Faber: I suppose that 2010 will show that the great "exit strategy" of Mr. Bernanke and Geithner will be more fiscal stimulus and more money printing. This will be bad for bonds and cash and good for asset markets, such as commodities and stocks. However, whereas 2009 was a superb year to make money, 2010 will be a year of capital preservation and of far more moderate gains. Sometime in 2010, probably in about three months' time, but it could also happen sooner, equities will correct at least 20% to 30%. Thereafter, money printing will lift them again. Japanese stocks are the most contrarian play. Among commodities, agricultural commodities may do best in 2010.

Peter Schiff: It will be a good year for commodities, gold, and foreign stocks. I don't think overall they'll be as good as 2009 coming off the 2008 meltdown, but gold, commodities, and foreign assets will all outperform U.S. assets. You don't want to be in U.S. dollars or U.S. debt.

Bill Bonner: Sell U.S. stocks and bonds. Buy Japanese stocks and gold. Keep cash balances high.

Jeffrey Christian: Be long commodities, but hedge your long positions by purchasing out-of-the-money puts. We are bullish on silver, platinum, and palladium as well as gold.

David Tice: Be cautious, lighten your equity exposure, be hedged, pay off debt, and hold gold and other precious metals.

Bob Hoye: The increase in gold's real price indicates improving profit margins for producers, and this has not been fully priced into the sector. Big- and smaller-cap producers have been good performers through most of 2009, and the best is yet to come. Gold's real price advance also enhances valuations on gold deposits, and this will likely ensure that the play will rotate into exploration stocks. The big producers desperately need gold reserves. The big winner in 2010 will likely be the "juniors."

Krassimir Petrov: For the aggressive investor, I would recommend staying mostly in gold and silver. The conservative investor should diversify across the full spectrum of commodities, with significant weights in food and energy. I would stay out of stocks, bonds, and real estate, regarding them as overvalued and risky. I am also an inflationist, so I recommend staying out of fiat currencies. If I had to pick only one investment, it would definitely be gold, preferably physical, in bullion and coin form.

Clyde Harrison: The ruler for your investment success is the U.S. dollar, and it's declined 25% since 2000. The stock market has declined 20%, so in real terms you're off 40%. So, as long as they print money, you want to be invested in stuff – gold, silver, and commodities. And everybody has to learn to trade because we're no longer in a buy-and-hold environment, because we don't know what Washington is going to do. Washington is a bunch of lawyers, and I have socks that know more about economics than they do. We're heading to a debt cliff; the math tells us what they're doing can't work. Meanwhile, commentators talk about what we're doing to our grandchildren – but this will be over before we have grandchildren. Those earning a living right now will be hit with this. Our best hope is that the revolution is at the ballot box and not in the street.

Ian Gordon: Short equities and debt, and go long precious metals and precious metal equities.

Steve Henningsen: Don't be misled by 2009; we are still in a wealth *preservation* situation! Own gold and silver, commodities (especially agricultural), lots of cash – as you never know when Mr. Opportunity will show up – and short long-term U.S. Treasuries. Oh, and keep your eye on Uncle Sam!