PRIVATE WEALTH ADVISORY

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The Big Breakdown Has Begun Pt 2

Dissent is growing at the Fed.

Several Fed members, most notably Ben Bernanke have expressed an openness to additional monetary easing/ QE.

Indeed, Bernake just told Congress that the Fed will intervene if more stimulus required, though the Fed has no plans to do so in the near future.

Then there are others, such as Dallas Fed President Richard Fisher who recently "*We've exhausted our ammunition... I do not personally see the benefit of more monetary accommodation even if the economy weakens further.*"

Remember, Ben Bernanke has recently called for Fed officials to refrain from criticizing Fed policy. So if Fisher is willing to step forward and make these remarks there are almost certainly other Fed officials who feel the same way but do not express their thoughts publicly for fear of career risk.

However, the fact remains, that whatever dissent there is amongst Fed members, another run if systemic risk will result in some kind of Fed intervention/ monetary easing.

The reason for this is very simple: regardless of personal views, the Fed as a whole is committed to the idea that any action is better than no action. This is clear in the fact that we've only had four months since March 2009 in which the Fed was not actively engaged in or promising QE.

Think about that for a moment. There have been only four months out of a total of 28 (March '09-July'11) in which the Fed hasn't had a QE program in place.

Short-Term Trends

-Debt contagion spreading to Italy
-Dead cat bounce in Euro
-QE 2 over
-MAJOR risk of deflation spreading from Europe
-Commodities and stocks at risk of severe correction (Gold and Silver stronger)
-US Dollar rally

Intermediate Trends

-The Fed/ Central Banks will attempt to step in with more liquidity later in 2011.

-China hard landing

-End of European Union

-Second severe global economic contraction underway (2008 only worse)

Long-Term Trends

-Higher interest rates

- Widespread debt defaults/ restructuring

-Gold to return to currency backing

- Major bull market in agriculture, farmland, and alternative energy

On top of this, there's the $200+ trillion interest rate based derivatives market, which we covered in depth in Part 1 of this issue of ***Private Wealth Advisory***. No matter what, the Fed will do everything in its power to control interest rates in order to avoid triggering a systemic meltdown here.

So while deflation remains the biggest danger to the markets in the near-term. The ultimate outcome will be inflation if not hyper-inflation as the Fed *will* engage in QE 3 if not more as soon as another Crisis brings the market down far enough.

I believe the market is already discounting this to a degree in the recent move in Gold which has just broken out to a new all time high in Dollars:

Euros:

British Pounds:

And almost in Japanese Yen:

For that reason, I'm adding three more inflation hedges to our inflation portfolio's watchlist. It's not yet time to buy these investments, but add them to your watchlist for when the current round of deflation ends.

I've categorized them in terms of risk with the proven, deep value plays first and the more speculative plays second.

Larger Players with Solid Returns

Investment #1: Vista Gold (VGZ)

We've actually invested in this company previously to the tune of a 42% gain. And the story remains much the same as when we bought it…

VGZ is a junior gold mining company with six projects located in the US, Mexico, Indonesia, and Australia. The company has roughly 17 million ounces of Gold on its books. With Gold currently trading around $1,600 per ounce, this puts VGZ's total potential reserves north of $25 billion in value. VGZ's market cap today is 243 million: 1/10th of this.

It's not as though the company is merely a speculative play either. VGZ's management, which is comprised of seasoned veterans, has already realized $110 million in gains off of properties they've spun off.

However, there's an added bonus to this company. VGZ's Guadalupe de los

Reyes project in Mexico now looks to be a potential monster Silver asset with over 17 million ounces of Silver.

Between this asset and VGZ's Gold holdings, the company is a prime takeover target for any large Gold producer looking to increase its reserves. After all, the company is trading for less than 1/10th of its Gold reserves and less than 1/3 of its Silver reserves.

VGZ looks on the verge of a breakout, but I'd want to see it *stay* above resistance for a while before we buy:

Investment #2: Kinross Gold (KGC)

The story for Kinross is very short and *very* sweet.

The company is a senior Gold producer with 10 operating mines and five development projects. It's already producing 2.3 million ounces of Gold per year and management intends to grow this to 5 million ounces per year by 2015.

With a market cap of $20 billion and $1.5 billion in cash on hand, Kinross is trading at the absurd (for a Gold company) valuation of 13 times cash. This would be an attractive valuation for *any* company, but it is *extremely* rare for a gold miner, especially when you consider that Kinross has over 62 MILLION ounces of proven and probable Gold resources with an additional 41 million ounces in inferred and indicated resources.

So that's a total of 100 million ounces of Gold (worth north of $100 billion), trading for less than 1/5th of this. And it's not as though its size has hindered Kinross's growth: the company has grown its resource base an annually compounded rate of 25% for five years straight.

And Kinross has an incredible track record of turning these resources into returns for shareholders: in 2010 the company produced nearly $1 billion in operating cash flow. So Kinross is trading at 20 times cash flow. This is absolutely unheard of for a Gold miner.

The chart is looking good too:

Kinross looks to be on the verge of breaking out of a massive falling wedge pattern. If it can break the descending trendline and stay there, we're going to $32 in short order.

However, it's too early to buy here (Kinross could just as easily drop back down to $16 per share), so we're adding this company to our watch list.

This concludes part two of this week's ***Private Wealth Advisory***. I'm currently putting together a report of three very small speculative mining plays that have truly EXPLOSIVE potential. I'll get this report to you in the next few weeks.

Good Investing!

Graham Summers