Private Wealth Advisory

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Europe's Out of Buyers

Let's start this issue with the most pressing dates that will dictate market action in the coming weeks.

1. June 6: The Fed's FOMC meeting
2. June 17: Greece officially "runs" out of money
3. June 28-29: Next EU summit meeting
4. June 30: Operation Twist 2 Ends

Regarding #1, one of my Central Themes is that the relationship between Central Banks and their respective Governments are breaking down.

The reason for this is that as sovereign defaults occur and Governments topple, the various quasi-Governmental institutions such as Central Banks will be looking to survive.

Over the last four years, Central Banks have catered to pressure from politicians, providing liquidity and extraordinary monetary measures to prop up the financial system.

This approach has not been without its consequences; in the process of catering to political pressure, the Central Banks rendered themselves insolvent: the US Federal Reserve is now leveraged at 50 to 1 while the European Central Bank is leveraged at 36 to 1 (a quarter of its holdings being PIIGS debt as well).

Now at risk of their own collapse and with another even larger Crisis on the horizon in the form of the coming sovereign debt implosion, the world's Central Banks have begun two strategies:

Short-Term Trends
-The Markets have topped.
-Deflation is back.
-Spain is on the brink of a banking collapse.

Intermediate Trends
-Very very ugly charts indicating European collapse within the coming weeks
-China economic deterioration to affect commodities and global GDP
-Weaker economic data in the US as seasonal adjustments come back to haunt us.

Long-Term Trends
-Global debt implosion.
-Markets to go to new lows either nominally or in terms of purchasing power depending on whether we get hyperinflation or severe defltation
-Trade wars and very likely REAL warfare

1) Putting the responsibility for current fiscal conditions on their respective Governments (thereby defending their actions during the 2008 Crisis while simultaneously distancing themselves from the responsibility of the coming sovereign debt Crisis).

2) Turning off the monetary spigot.

We have seen this already in the US where Ben Bernanke began blaming Congress for the US's poor finances as far back as August 2011:

> **Bernanke Blames Politics for Financial Upheaval**
>
> The Federal Reserve chairman, Ben S. Bernanke, said Friday that the political battle this summer over the federal government's borrowing and spending had disrupted financial markets "and probably the economy as well."
>
> In remarks that went well beyond his previous calls for Congress and the White House to address the nation's long-term fiscal challenges, Mr. Bernanke suggested the process itself was broken.
>
> "The country would be well served by a better process for making fiscal decisions," he said.
>
> Mr. Bernanke said he remained optimistic about future growth — he gave no indication that the Fed would increase its economic aid programs, though he said the central bank's policy-making board would revisit the issue at a scheduled meeting in September — but he warned that the government had emerged as perhaps the greatest threat to recovery.
>
> "The quality of economic policy-making in the United States will heavily influence the nation's long-term prospects," Mr. Bernanke said in the much-anticipated speech, delivered at a policy conference held each August here at a resort in Grand Teton National Park.
>
> The turn toward stronger language was welcomed by some lawmakers and observers of the partisan battle that has pitted Republicans seeking to reduce the federal debt through spending cuts against Democrats arguing for a mix of cuts and increases in revenue.
>
> http://www.nytimes.com/2011/08/27/business/economy/federal-reserve-chairman-offers-no-new-stimulus.html?pagewanted=all

This blame game has been accompanied by the Fed slowly withdrawing its monetary stimulus and relying more on verbal and symbolic interventions rather than outright asset purchases via money printing:

> **From the April 27 FOMC minutes**
>
> To support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate, the Committee expects to maintain a highly accommodative stance for monetary policy. **In**

particular, the Committee decided today to keep the target range for the federal funds rate at 0 to 1/4 percent and currently anticipates that economic conditions--including low rates of resource utilization and a subdued outlook for inflation over the medium run--are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014.

http://www.federalreserve.gov/newsevents/press/monetary/20120425a.htm

The QE-crowd continues to believe QE 3 is just around the corner. But as the Fed has proved now for eight consecutive FOMC meetings, it is not going to announce more QE unless another systemic Crisis erupts. Instead the Fed continues to reiterate its talk of maintaining low interest rates, which is largely a symbolic gesture as it changes nothing.

The Bank of Japan is joining this strategy of pulling back on its liquidity measures…

BOJ eased to ensure recovery, won't act "automatically"

Bank of Japan policymakers agreed to ease monetary policy in April to ensure the economy resumes a recovery, but signaled a pause by complaining of "misunderstanding" in markets that they will keep offering monetary stimulus automatically until 1 percent inflation was in sight, minutes of the meeting showed.

At the April 27 meeting, the BOJ boosted asset purchases by 10 trillion yen ($126 billion), offering its second stimulus in just over two months in a show of its determination to achieve its 1 percent inflation target set in February.

Central bank policymakers agreed that Japan's economy was gradually heading for a recovery with consumer prices expected to rise as a trend, minutes of the meeting showed on Monday.

But they decided to act to ensure that such positive momentum in the economy is sustained given various uncertainties over the outlook, such as the chance of tensions over Europe's sovereign debt crisis triggering a renewed yen rise, it showed.

http://www.reuters.com/article/2012/05/28/us-japan-economy-boj-minutes-idUSBRE84R01020120528

So has the ECB...

Nowotny Says ECB Not Discussing Reviving Bond Purchases

European Central Bank Governing Council member Ewald Nowotny said the bank isn't considering restarting its bond-purchase program to stem rising borrowing costs for governments in the euro area.

"This for the time being is not a matter of discussion," Nowotny told reporters in Belgrade today, when asked if bond purchases are something the ECB is contemplating. "**The ECB has done a number of measures that were very helpful and efficient for the economy**. We are now in a situation where we have to see how these measures have worked in the economy, especially in long-term operations."

http://www.businessweek.com/news/2012-05-29/ecb-s-nowotny-says-reviving-bond-purchases-not-being-discussed

Stocks lose shine as ECB signals no new stimulus

Stocks turned lower on Thursday after the European Central Bank indicated it would not, for now, ease its monetary policies further to fight the debt crisis and a U.S. services survey disappointed expectations.

Though the ECB's decision to keep its main interest rate unchanged at 1 percent was expected, there was disappointment in the markets that the bank's president Mario Draghi gave no indication it might offer more long-term super-cheap loans to banks or that monetary policy could be made more accommodative.

http://www.businessweek.com/ap/2012-05/D9UHB7381.htm

Even China, which has shown itself to be one of the biggest proponents of economic intervention of the last four years is curbing its stimulus efforts and signaling a slowdown.

China Has No Plan For Large Stimulus To Counter Slowdown

China has no plan to introduce stimulus measures to support growth on the scale unleashed during the depths of the global credit crisis in 2008, according to the nation's state-run Xinhua News Agency.

"**The Chinese government's intention is very clear: It will not roll out another massive stimulus plan to seek high economic growth**," Xinhua said yesterday in the seventh paragraph of an article on economic policy, without attributing the information. "**Current efforts for stabilizing growth will not repeat the old way of three years ago.**" In 2008, policy makers unveiled a fiscal stimulus of 4 trillion yuan ($586 billion at the time).

http://www.bloomberg.com/news/2012-05-29/china-has-no-intention-for-large-scale-stimulus-xinhua-reports.html

Thus we have the world's three most important Central banks as well as the global economy's "economic miracle" retreating from aggressive monetary intervention. As noted earlier, part of this is political in nature (the banks need to look out for themselves as entire governments and sovereigns will collapse in the future).

The other part of this decision is to conserve whatever last dry powder remains. Indeed, the Central Banks *must* all be aware that the financial system as a whole is teetering on the brink of collapse. Having exhausted nearly all of their monetary tools, their only choice now is to wait until the Debt Implosion hits with full force at which point they must opt for one of two nuclear options:

1) Monetize everything: inflation then hyperinflation.
2) Permit the debt defaults to occur and deflation to take down the markets.

The reason I am so certain that the Central Banks are aware that the entire system is on the brink is because Spain has just given them (as well as the markets) a glimpse into how fragile things truly are.

To whit, Spain has just performed the largest bank nationalization in its history: Bankia. Here's a brief summation of the story.

Bankia was formed in 2010 when the Spanish Government merged seven insolvent cajas (regional banks… for more on the Spanish Caja system see the April 12 2012 issue of ***Private Wealth Advisory*** titled ***Spain Takes Center Stage***).

In plain terms, Bankia was a trainwreck waiting to happen… at least to anyone with a working brain. However, both the bank itself *and* the Spanish Government decided to maintain a charade that the bank was in great form right up until it collapsed (only one month ago Bankia was talking about *paying its dividend*).

On May 9th the Spanish Government stepped in to nationalize the bank. Its first step was to convert its (the Spanish Government's) €4.5 billion worth of preferred shares to common shares, thereby taking a 45% stake in the bank.

The Spanish Government assured everyone that this move was adequate and that Bankia was solvent. Then Bankia announces €17 billion of new write-downs as well as €7 billion of mark-downs on investments. It also revised its 2011 results from a €309 million profit to a **€3 billion LOSS.**

Let that sink in for a moment. The bank, through accounting gimmicks, claimed it *made* €309 million in 2011. The second its true conditions were exposed it turned out Bankia actually LOST €3 billion

I can assure you that *most* if not ALL major banks in the Western world are engaging in similar accounting practices to hide the true conditions of their balance sheets. The coming Crisis will reveal the true state of things and will involve in many well known names going under.

In Bankia's case all of this culminated in the bank receiving a €19 billion Euro bailout, the largest in Spain's history. And for certain this amount of money will be increased dramatically: Bankia's loan book is roughly €200 billion in size (1/5th the size of Spain's GDP) and I can assure you a major chunk of this is total and complete garbage.

That's not the problem however. The REAL problem is that Spain itself is broke and doesn't have the money to prop this bank up…

> …so where is the €23.5bn for the Bankia rescue going to come from? **The state's Fund for Orderly Bank Restructuring (FROB) is down to €5.3bn, and there are many other candidates for that soup kitchen.**
>
> Spain must somehow rustle up €20bn or more on the debt markets. This will push the budget deficit back into the danger zone, though Madrid will no doubt try to keep it off books – or seek backdoor funds from the ECB to cap borrowing costs. Nobody will be fooled…
>
> **The Centre for European Policy Studies in Brussels puts likely write-offs at €270bn. We could see Spain's public debt surge into triple digits in short order.**
>
> As I wrote in my column this morning, the Spanish economy is spiralling into debt-deflation. Monetary and fiscal policy are both excruciatingly tight for a country in this condition. The plan to slash the budget deficit from 8.9pc to 5.3pc this year in the middle of an accelerating contraction borders on lunacy.
>
> You cannot do this to a society where unemployment is already running at 24.4pc. Either Europe puts a stop to this very quickly by mobilising the ECB to take all risk of a Spanish (or Italian) sovereign default off the table – and this requires fiscal union to back it up – or it must expect Spanish patriots to take matters into their own hands and start to restore national self-control outside EMU.
>
> http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100017477/spain-runs-out-of-money/

In addition to this, Spain's regional governments are seeking bailouts:

Spain's Catalonia seeks government help to pay debt

Spain's wealthiest autonomous region, Catalonia, needs financing help from the central government because it is running out of options for refinancing debt this year, Catalan President Artur Mas said today.

"We don't care how they do it, but we need to make payments at the end of the month. Your economy can't recover if you can't pay your bills," Mas told a group of reporters from foreign media.

A spokesman for the Catalan government later emphasised that Mas was referring to payments that must be met routinely each month and not a specific deadline this month.

The debt burden of Spain's 17 highly devolved regions, and rising bad loans at the country's banks, are both at the heart of the euro zone debt crisis because investors are concerned they could strain finances so much that Spain, the currency bloc's fourth biggest economy, will need an international bailout.

Catalonia, which represents one fifth of the Spanish economy, has more than 13 billion euros in debt to refinance this year, as well as its deficit.

All of the regions together have 36 billion euros ($45 billion) to refinance this year, as well as an authorised deficit of 15 billion euros.

Last year many of the regions financed debt by falling months or even years behind in payments to providers such as street cleaners and hospital equipment suppliers.

http://www.buenosairesherald.com/article/101796/spains-catalonia-seeks-government-help-to-pay-debt

Thus, Spain has illustrated the *true* nature of the EU Crisis. Specifically…

1) Both governments and banks are lying about the *real* risks to their balance sheets (Bankia passed the EU's stress tests).
2) We have reached the point at which Governments can no longer bailout their own failing banks as the Governments themselves are bankrupt (see Catalonia and Spain as a whole).

To recap… Spain has only €5 billion left in its own bailout fund… at a time when its largest bank needs €19 billion (likely much much more than this)… and its regional government have begun asking for bailouts too.

Oh, and the Spanish banking system needs to write off another €270 billion… if Spain cannot cobble together €19 billion, where on earth will it get the money needed to support its collapsing banking system which is facing additional writedowns woth hundreds of billions of Euros?

Well, Spain certainly doesn't have the money. This leaves the ECB and international institutions (the IMF or EU mega-bailout funds such as the ESM) as the last possible backstops for individual EU banking systems.

However, as noted earlier, Central Banks and other larger institutions are signaling and end to their stimulus/ bailout schemes. This leaves only the IMF or the mega-bailout funds such as the ESM as potential backstops.

But the IMF cannot issue an EU bailout as it does not have the funds. Moreover, the political environment (the IMF is essentially a US-backed entity) will not tolerate a European bailout via the IMF.

As a quick sidenote, the IMF itself will soon be facing its own political issues:

> **Anger over Christine Lagarde's tax-free salary**
>
> **The IMF chief Christine Lagarde was accused of hypocrisy yesterday after it emerged that she pays no income tax – just days after blaming the Greeks for causing their financial peril by dodging their own bills.**
>
> **The managing director of the International Monetary Fund is paid a salary of $467,940 (£298,675), automatically increased every year according to inflation.** On top of that she receives an allowance of $83,760 – payable without "justification" – and additional expenses for entertainment, making her total package worth more than the amount received by US President Barack Obama according to reports last night.
>
> Unlike Mr Obama, however, **she does not have to pay any tax on this substantial income because of her diplomatic status.**
>
> http://www.independent.co.uk/news/world/europe/anger-over-christine-lagardes-taxfree-salary-7801028.html

Thus, the only organization that might be able to foot the bill (theoretically) for an individual EU sovereign's banking problems is the mega-bailout fund the ESM.

However, even this is a dead-end as the ESM is essentially a German-backstopped entity (all other EU members supporting this scheme are broke). And Germany is about tapped out on the whole "support the rest of the EU" idea:

Germany's Government Still Opposes Direct ESM Aid For Banks

The German government on Wednesday reaffirmed its opposition to allowing European Stability Mechanism, Europe's permanent bailout fund, to directly lend to troubled banks in the Eurozone.

Government spokesman Steffen Seibert said at a regular press conference here that the German rejection of the idea of any direct recapitalisation of banks by the ESM "is well known."

The treaty creating the ESM explicitly states that the fund can only lend to governments in return for promises of reforms. The German government has stressed on numerous occasions that it insists that this passage of the treaty is respected. The treaty has yet to be ratified by most governments including Germany.

https://mninews.deutsche-boerse.com/mni/mainwirex_description.jsp?serverKey=1338381246670&sessionId=CFBBD140-3FC6-C44D-D2CE-EEF54CCAF087&un=jduffy@marketnews.com&sid=1

Indeed, German politicians have no choice: if they choose to directly bail out Spain's banks they will:

1) Very likely cost Germany its AAA status
2) Incite *severe* political repercussions from German voters (Merkel's party is already getting killed in state elections and she's up for re-election in 2013).

Thus we have arrived at the point at which there is literally no one to step in to prop up Spain. In plain terms, ***the EU is out of buyers***.

The significance of this cannot be overstated. It's GAME OVER for the EU. Certainly various emergency schemes and fantastical ideas will be presented as "solutions" to these problems (I'll detail one of them later in this issue)… but the reality is that Europe. Is. Out. Of. Buyers.

The political elite refuse to admit this publicly. But corporations and citizens (*read:* people who *have* money and want to protect it) are pulling their funds from Spain's banking system en masse: €65 billion in March and another €31 billion in April.

That's nearly €100 billion Euros fleeing Spain in two months' time. More Spanish bank failures are coming. And they're going to start coming fast.

With that in mind, it's to time to short our favorite Spanish bank, Santander (STD) again:

We're going to just above $4 and likely even $2 in the coming months.

Action to Take: Short Santander (STD)

While I've mainly focused on Spain so far, virtually ALL of Europe is in a similar mess. Indeed, many other European banks that will be going to new lows or ZERO.

The breaking of this trendline signals a HUGE drop is coming. Let's short this bank as well.

Action to Take: Short Credit Suisse (CS)

Regarding other banks UBS is *darn close* to being a great short as well:

When this line breaks, UBS is done.

The UK's Barclays (BCS), which we've profited from before, is also forming a very nasty chart.

When Barclays takes out $11 with conviction we're going short again.

The same sentiment applies to HSBC (HBC) when it breaks its lower trendline:

Even German banks will not be immune to the carnage:

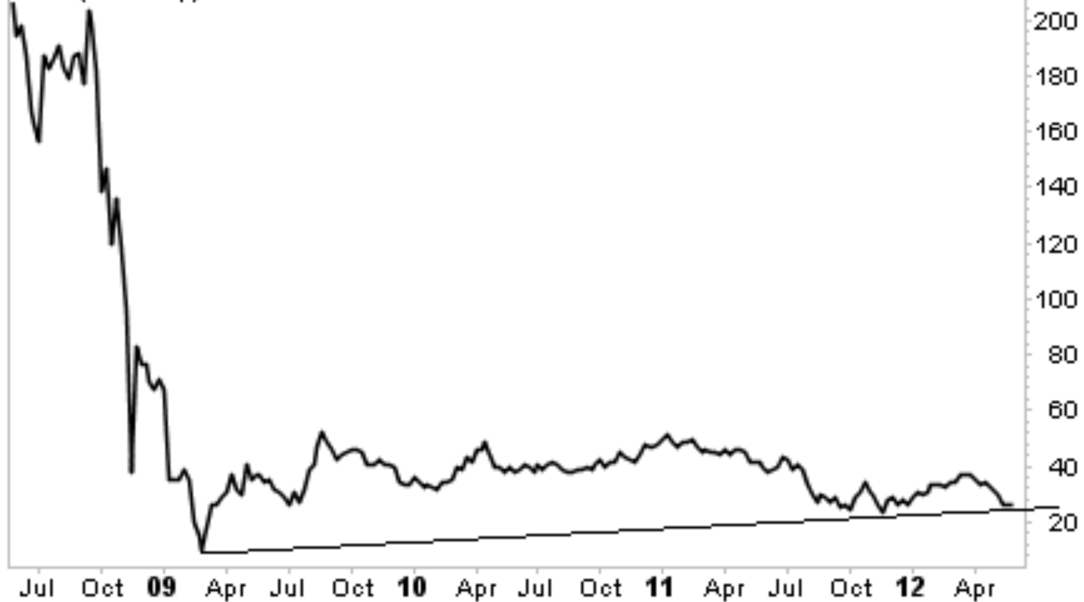
All of the above (UBS, Barclays, HSBC, and DB) will be great shorts in the near future. For now, we're shorting Santander and Credit Suisse (as well as HSBC which we've been short since December 2011).

For anyone who thinks that the US will be immune from what's coming, ALL of the TBTFs are sporting horrendous charts that are predicting full-scale melt-downs:

Wall Street's finest? Goldman's chart forecasts a drop to $20 or even $0 (quite possible given Goldman's derivative exposure).

JP Morgan's rock solid balance sheet? That idea blew up along with JPM's prop trades. Once the below trendline is taken out, we're heading to the 2009 lows *at least*.

Citigroup? Two words: NEW LOWS.



Bank of America? $5 is the line in the sand. Take it out and we're going to $0 (thanks to the Merrill lynch and Countrywide Financial acquisitions).

I know I've been labeled as "Gloom and Doom" in the past, but the above charts are beyond anything I've ever seen before. It is *highly likely* that *none* of the above banks will exist in their current form within two years. I would not have any significant amount of money stored with *ANY* of them.

I realize some of this may sound overly dramatic. But the following should give you an idea of how *serious* things are getting:

> **A Vote of No Confidence in Europe**
>
> **Germany and France's joint proposal to allow Schengen-zone countries to temporarily reintroduce border controls** as a means of last resort might sound harmless. But doing so would damage one of the strongest symbols of European unity and perhaps even contribute to the EU's demise.
>
> Germany and France are serious this time. During next week's meeting of European Union interior ministers, the two countries plan to start a discussion about reintroducing national border controls within the Schengen zone. **According to the German daily Süddeutsche Zeitung, German Interior Minister Hans-Peter Friedrich and his French counterpart, Claude Guéant, have formulated a letter to their colleagues in which they call for governments to once again be allowed to control their borders as "an ultima ratio" -- that is, measure of last resort -- "and for a limited period of time." They reportedly go on to recommend 30-days for the period**.
>
> http://www.spiegel.de/international/europe/german-and-french-proposal-for-border-controls-endangers-european-unity-a-828815.html

This story has been *almost completely* ignored by the mainstream media. Let me ask you this… do you think Germany and others are *really* concerned about an influx of migrants? Of course not, the whole idea is ridiculous. Italy was supposedly upset about 25,000 migrants from North Africa… Italy has a population of 65 MILLION!

No, the move to create border controls is about one thing only: **stopping people from fleeing with their money when the collapse comes. The political elite in Europe are watching the bank runs in Spain and Greece and know that when the big Crash comes similar runs will occur throughout the EU.**

Consider the following story and you'll see what I mean:

> **Swiss eye capital controls if Greece goes**
>
> **The Swiss National Bank is considering imposing capital controls on foreign deposits if Greece leaves the euro, as the franc comes under heavy demand from investors seeking a haven in Europe.**

Speaking to Swiss media, Thomas Jordan, head of the Swiss central bank, said **the Swiss government and the SNB were looking at ways of dealing with an expected flood of foreign money into the country in the event of a Greek exit from the eurozone.**

http://www.ft.com/cms/s/0/d7678676-a810-11e1-8fbb-00144feabdc0.html#axzz1wNKR2leW

Potential border controls in the EU and capital controls in safe haven Switzerland to stop inflows of funds? If that doesn't tell you point blank that the political elite in the EU are scared stiff, nothing will.

Indeed, Germany has made a massive power grab to control most of Europe's finances… but under one condition: it be given access to other members' *gold reserves* as collateral.

Europe's debtors must pawn their gold for Eurobond Redemption

Southern Europe's debtor states must pledge their gold reserves and national treasure as collateral under a €2.3 trillion stabilisation plan gaining momentum in Germany.

The German scheme -- known as the European Redemption Pact -- offers a form of "Eurobonds Lite" that can be squared with the German constitution and breaks the political logjam. It is a highly creative way out of the debt crisis, but is not a soft option for Italy, Spain, Portugal, and other states in trouble.

The plan is drafted by the German Council of Economic Experts and inspired by Alexander Hamilton's Sinking Fund in the United States -- created in 1790 to clean up the morass of debts left by the Revolutionary War. Flourishing Virginia was comparable to Germany today…

The plan splits the public debts of EMU states. Anything up to the Maastricht limit of 60pc of GDP would remain sovereign. Anything over 60pc would be transfered gradually into the redemption fund. **This would be covered by joint bonds.**

Italy would switch €958bn, Germany €578bn, France €498bn, and so forth. The total was €2.326 trillion as of November but is rising fast as Europe's slump corrupts debt dynamics. The sinking fund would slowly retire debt over twenty years, using designated tithes akin to Germany's "Solidarity Surcharge".

> **In effect, Germany would share its credit card to slash debt costs for Italy, Spain and others**. Yet it is the exact opposition of fiscal union. While eurobonds are a federalising catalyst, the fund would be temporary and self-extinguishing. "The fund is a return to the discipline of Maastricht with sovereign control over budgets," said Dr Benjamin Weigert, the Council of Experts's general-secretary…
>
> The fund implies a big sacrifice for Germany. Its interest costs on joint debt would be much higher than today's safe-haven rate of 1.37pc on 10-year Bunds. Jefferies Fixed Income says it would cost 0.6pc of German GDP annually. The Council of Experts -- or `Five Wise Men' -- argue that this would be modest compared to the growth adrenaline of rescusitating monetary union.
>
> Yet it is not charity either. One official said a key motive is to relieve the European Central Bank of its duties as chief fire-fighter. **"We have got to get the ECB out of the game of distributing money, and separate fiscal and monetary policy. Germany has only two votes on the ECB Council and has no way to control consolidation," he said.**
>
> **Germany would have a lockhold over the fund, able to enforce discipline. Each state would have to pledge 20pc of their debt as collateral. "The assets could be taken from the country's currency and gold reserves. The collateral nominated would only be used in the event that a country does not meet its payment obligations," said the proposal.**
>
> http://www.telegraph.co.uk/finance/financialcrisis/9298180/Europes-debtors-must-pawn-their-gold-for-Eurobond-Redemption.html

Folks, the EU End Game is now officially in play. Germany has played its hand: if you want us to foot the bill we want your Gold. This tells us:

1) Germany is aware that most EU Sovereign bonds and paper are garbage (this is confirmed by the fact that Germany has passed legislation allowing its own banks to dump EU Sovereign bonds into a bailout fund during a Crisis).
2) Germany will only put up more money if it's granted fiscal control of the EU *and* Gold bullion as collateral.
3) Germany is the REAL monetary power in Europe (not the ECB).

I believe this is Germany's final push for EU control. If this fails and Germany ceases to offer additional bailout funds in some form then the EU will collapse (as noted earlier, the ECB, IMF, and US Fed cannot prop the EU up nor will the ESM mega bailout fund work). Spain's literally on the verge of seeing a bank holiday. Germany is the only one who *might* have the funds to prop it up. And Germany wants *gold.*

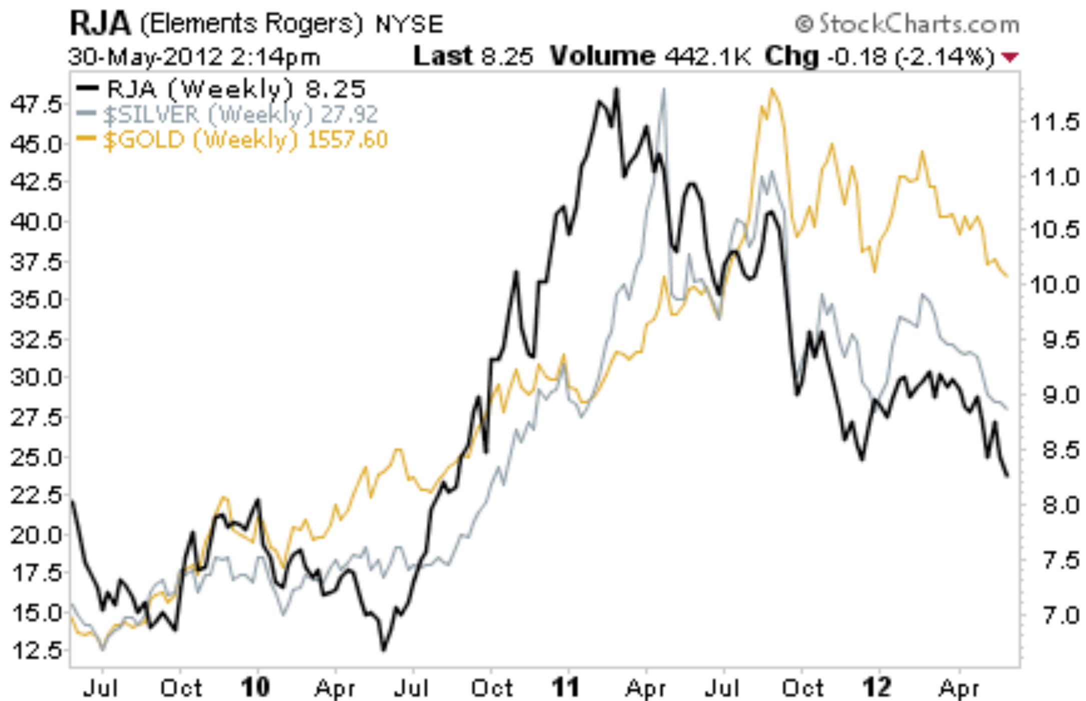
In plain terms, the EU will likely not last through the summer. It's literally GAME OVER time. Various proposals will crop up (such as Germany's "cash for Gold" program), but no one (not even Germany) actually has the funds to support the avalanche of banking failures that is coming.

THIS is why various countries are moving to put border and capital controls in place. They know the game is up. It's now just a matter of time before things go from ugly to truly disastrous.

A final thought on deflation…

I've received a number of emails asking me if Gold and Silver have hit bottoms. While I'm very bullish about both metals in the long-term, the charts have me concerned that we might see further drops, very likely based on institutional investors liquidating positions due to redemptions and margin calls.

As the below chart shows, both Gold and Silver have been lead by agricultural commodities in the last two years:



With that in mind, agricultural commodities have recently broken down, signaling more deflationary drops in the near term. Gold and Silver will very likely follow suit.

We get further confirmation of a deflationary collapse from Copper, which is forming a nasty looking Head and Shoulders pattern:

With that in mind, I view deflation as a REAL risk for Gold and Silver in the near-term. Understand that I am VERY bullish on both Gold and Silver long-term. But in the near term I believe we'll see a greater correction before a bottom is hit.

Indeed, if we get the full-scale banking Crisis that I expect, I believe Gold could drop to as low as $1,250 per ounce while Silver could drop to $20.00 per ounce. **I would view both as MASSIVE buying opportunities**. Once liquidations end, the global debt implosion will see more and more money will flow into both metals. They'll then be off to the races again.

This concludes this week's issue of ***Private Wealth Advisory***. Barring any new developments, you'll next hear from me on June 13. Until then, I'm watching the market closely and will issue updates as needed.

As always…

Best Regards,

Graham Summers

Watch List (Positions we are close to opening)

Investment	Symbol
UBS (SHORT)	UBS
Barclay's (SHORT)	BCS
HSBC (SHORT	HBC
Deutsche Bank (SHORT)	DB
Goldman Sachs (SHORT)	GS
JP Morgan (SHORT)	JPM
Citigroup (SHORT)	C
Bank of America (SHORT)	BAC

OPEN POSITIONS

Inflation Portfolio (OPEN BUYS NOW)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Gold bullion	N/A	3/17/10	$1,120	$1,564.00	40%
Silver bullion	N/A	3/17/10	$17.50	$27.93	60%
Centamin Mining	CEE.TO	5/25/11	$2.01	$1.03	-49%

Deflation Portfolio (OPEN BUYS NOW)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Dollar ETF	UUP	5/23/11	$21.79	$22.98	5%
Rydex Strengthening Dollar 2x Strategy	RYSDX	12/14/11	$14.39	$14.55	1%
HSBC* (short)	HBC	12/14/11	$37.07	$39.12	2%
UltraShort Gold ETF**	GLL	12/14/11	$19.61	$18.72	-5%
Societe General (Short)***	SCGLY.PK	5/16/12	$4.00	$3.88	3%
UltraShort Brazil	BZQ	5/23/12	$92.62	$87.00	-6%
UltraShort Emerging Markets	EEV	5/23/12	$34.41	$33.02	-4%
Santander (SHORT)	**STD**	**5/30/12**	**$5.25**	**SELL**	**SHORT**
Credit Suisse (SHORT)	**CS**	**5/30/12**	**$19.34**	**SELL**	**SHORT**

- **Opened 12/14/11 at 11:13AM, averaged in second prices on 1/27/12**

**** Opened 12/14/11 at $19.76 averaged in second price of $19.46 on 5/23/12 at 11:50AM**

***** Paris stock symbol GLE.PA**

RECENTLY CLOSED POSITIONS

Company	Symbol	Buy Date	Buy Price	Sell Price	Gain/ Loss
UltraShort Russell 2000*	TWM	5/16/12	$33.53	**$34.88**	**4%**
Spain iShares (SHORT)*	EWP	5/2/12	$25.16	**$23.56**	**6%**
UltraShort Euro ETF**	EUO	1/27/12	$19.78	**$21.32**	**8%**
Banco Sabadell (SHORT)***	SAB.MC	5/16/12	$1.55	**$1.34**	**14%**
Banco Popular (SHORT)***	POP.MC	5/16/12	$2.00	**$1.63**	**19%**
BNP Paribas (SHORT)+	BNPQY.PK	5/16/12	$16.59	**$15.51**	**7%**
Credit Agricole (SHORT)+	CRARY.PK	5/16/12	$1.90	**$1.76**	**7%**
National Bank of Greece (SHORT)+	NBG	5/16/12	$1.55	**$1.45**	**6%**

* Sold 5/21/12 10:32 AM
** Sold 5/23/12 1:24 PM
*** Sold 5/29/12 9:46 AM
\+ Sold 5/30/12 10:44 AM