

## Overview

This past quarter we witnessed much turmoil in the world. From peaceful and bloody revolutions in the Middle East to the earthquake in Japan, to the increase in prices of oil and other commodities. Believe it or not we are at the beginning of a major historical global shift, **philosophically, politically and economically**. I would like to put an emphasis on these three words because five years from now, you will remember these changes. Historic trends will be our guide and the mega-trends in place now will cause economic changes that were unthinkable before. What this means is that on one side of the economic and political shift there will be monetary and political power losses, and there will be gains on the other side. It is difficult to understand now which way the wind is blowing, but within the next 18 months we will. The earthquake in Japan will (obviously) bring about major changes in that country. The Arab world will continue struggling until it finds a new equilibrium. I am not sure yet if there will be radical political innovations there or not. Author Naomi Klein explored this in 2007's "The Shock Doctrine." Klein's focus is one free-market ideologues who exploit crises to impose rapid and irreversible change in nations around the world. Fate may have

just handed Japan a chance to unleash the doctrine on itself.

My definition of this historic period in our life is quantum economics. The quantum state is the world in which our mere intention turns energy into matter. At the quantum level, everything comes from nothing. The present, future and past are one. Atoms spin up and down at the same time but when observed, choose a direction to spin depending on the universe we are in. Financial and geopolitical analyses have helped governments determine market direction and political issues. In the past 50 years Keynesian economists caused governments, institutions and individuals around the world borrow and spend their way to prosperity in what John Maulding calls the 50-year debt supercycle. Going forward, it will be more difficult for governments and institutions to borrow horrendous amounts of money due to investors' understanding of the perils of sovereign debts. Simultaneous and differentiated geopolitical and economic development in the world will force governments from Europe to Japan to the U.S. to cut spending. If governments refuse to take radical steps toward reducing sovereign debts, you can expect bond defaults, increasing inflation

and stagnation worldwide. The bitter pill of fiscal responsibility must to be swallowed now and not deferred another five years from now. Accounting and political gimmicks will no longer work. Politicians have been forewarned: *Payment is due now.*

In this scenario we keep holdings in precious metals, including gold, silver and platinum, and in various energy stocks, from traditional oil and gas to the new energy field. For the foreseeable future, we are bullish on natural gas. We also favor investments in infrastructure, especially water and engineering companies. Other interesting sectors include innovative health care, agriculture and nutritional stocks. We believe that trading with options helps to increase the cash flow and better manage risks. In today's markets, managing risk is a primary issue for all investors.

### **Currencies**

We think the next Japanese government bond crisis will happen within the next 36 months. Japan's government managed to finance its debts with bonds sold to Japanese financial institutions and private individuals. Savings by private individuals is decreasing dramatically, falling near 0% which was reached by the U.S. back in 2005/2006. This is due mostly to an aging population which is exacerbated by very restrictive immigration laws. So for these reasons, we are bearish on the Japanese yen. Furthermore, few selective Japanese stocks offer attractive investments.

Over the past five years, we correctly forecast in which countries it is safe to

invest in currencies. These are our long-time preferred currencies: Australian Dollar, Canadian Dollar, Brazilian Real, Chilean Peso, Uruguayan Peso, Norwegian Kronen, and the Swiss Franc. To a lesser degree, we are positive about the Indian Rupee, the Colombian Peso, the Turkish Lira, the Poland Slotzly, and the Swedish Kronen. We are bearish, for various and disparate reasons, on the U.S. dollar (long-term), the Euro, the Japanese Yen, and the Chinese Yuan.

### **Precious Metals**

During this quarter the international investment community was not interested in adding or selling their positions in precious metals. In addition some hedge funds start to short gold, and gold stocks. Moreover, due to last year's positive stock market performance, a lot of investors are investing cash available in stocks, especially energy stocks. Therefore, for the next quarter we believe prices of gold will stay at trading range of \$1,370-\$1,500 per ounce. Silver prices are riding toward the \$40 mark. We believe there will be a pause at that level during the next few weeks. After that, if sovereign debts and banks conditions do not improve worldwide, prices of silver will increase to between \$50 and \$75 per ounce before year's end. In that event, gold will rise to \$1,600-\$1,700. Read the March report by one of my favorite analysts, Dr. Martin Murenbeeld at: <https://www.dundeewealth.com/en/public/askTheExperts.htm> Keep your holding on precious metals and add on weakness.

Investors should now also look at buying selective real estate properties in the

U.S. where prices have collapsed. We think prices will bottom within the next two quarters. Smart money is already moving in this direction.

I am also surprised that no industrialized government has yet suggested anchoring the value of their currency to a basket of commodities including gold, silver, oil and natural gas. I think the U.S., the Japanese, and European governments are playing the dangerous game of putting their heads on the sand.

Your dedicated quarterly commentator,

A handwritten signature in blue ink, appearing to read "Dario A. Bianchi", with a long, sweeping flourish extending to the right.

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