AFE

GLOBAL INSIDER

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by Duncan Cameron & Alex Stanczyk
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In this Issue...

$1900.00 GOLD AND FUND MANAGERS COULDN'T CARE

by Duncan Cameron

Smart Cow Problem

The smart cow problem is the concept that when a group of individuals is faced with a technically difficult task, only one of their members has to solve it. When the problem has been solved once, an easily repeatable method may be developed thereby allowing the less technically proficient members of the group to accomplish the task.

The term 'Smart Cow Problem' is thought to be derived from the expression, "It only takes one smart cow to open the latch of the gate, and then all the other cows follow."

Check out the humorous YouTube link:
http://www.youtube.com/watch?v=NaD67sj1UfQ

The entire finance world is aghast at the price of Gold. It's TV, it's radio, it's Web, it's print media and it's lots and lots of talk, but one thing it most certainly is not – it is not being aggressively pursued by financial cows looking for a seamless way into pleasant grassy returns. Far from it. Ben Davies of Hinde Capital, whom I had the pleasure of meeting in London at the recent GATA conference, was quoted on CNBC as saying his banking associates are shorting or selling Gold. From Alex's and my perspective returning from Geneva just a month earlier, it is clear that professional money managers and other financial professionals still have yet to embrace Gold to any degree. From the panel I sat on as we each answered the large group's questions, there was an obvious high level of interest and an emotive, almost guttural, view on Gold that saw hands rising all over the room seeking the microphone to ask us a question or expound their wisdom as though they were sudden experts (but ask them if they bought years back at $200-$400). Suffice it to say, when it came to converting knowledge into action, this was a group stuck in the cow pen fossicking around the ground picking off a shred of straw here and there in traditional investment returns. They are choosing to spurn Gold's high rate, or more importantly, wondering why it should even be owned as a wealth protection. This is sad given that their first and primary job in this volatile environment is to retain value on behalf of their clients. I stated in a loud, clear voice to the entire group that the Texas University had a month or so earlier bought a billion at the record high of $1475, and here we are today in Geneva at the price of $1550.

When Alex attends the next conference in San Francisco, he will tell them it's $1900.00 and ask for a show of hands as to who has benefited since Geneva. He is unlikely to get too may hands. These are the facts, not some second-hand blog. It's vital for all to understand before they jump too quickly onto the "bubble" brigade thinking it's too late and they have missed out when in fact it's still only a smart cow here or there opening a latch and walking out alone buying physical Gold/Silver.

In a previous edition I quoted the example of monkeys repopulating a post-atomic blast zone on an island and the process in which one by one the monkeys copied the trained monkeys in washing coconuts to avoid high radiation exposure. There came that magical point where a certain percentage of the monkey's actions caused the entire island's population to follow suit, and it happened very fast.

Alex recently submitted to me a proper university study on this phenomenon applying this point of conversion to a new practice….

UNSHAKABLE BELIEF

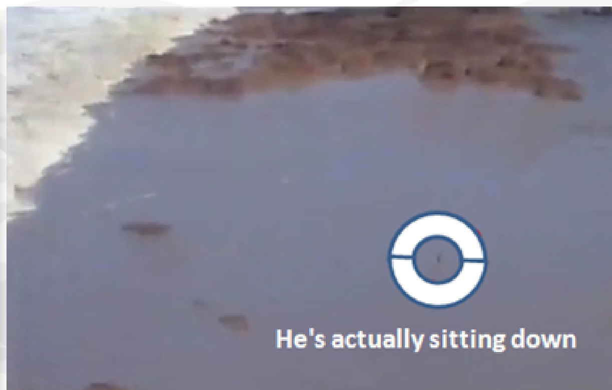
"Scientists at Rensselaer Polytechnic Institute have found that when just 10 percent of the population holds an unshakable belief, their belief will always be adopted by the majority of the society."

http://scienceblog.com/46622/minority-rules-scientists-discover-tipping-point-for-the-spread-of-ideas/

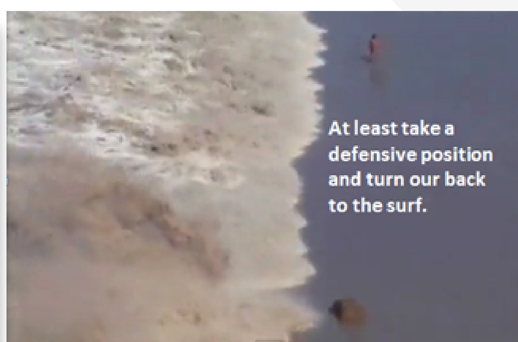
If we dissect the monkeys (financial community) and cows (average person) down to their actions, it can be said that we are still a long way off the levels it takes to change a population to a paradigm where you are considered some type of financial dunce for not owning Gold or Silver. The fact is, if you own Gold or Silver, then you are a lone monkey in a world of paper promises. Don't look at the price when you buy; look at the people around you and their impotence to move into precious metals.

ANATOMY OF A FINANCIAL DISASTER SEEN THROUGH THE PARALLEL OF THE 2005 BOXING DAY TSUNAMI TOTAL LOSS OF LIFE IN EXCESS OF 250,000

Your average man on the street is blissfully unaware of what's happening out to sea and Lehman Brothers' demise is just a news clip.

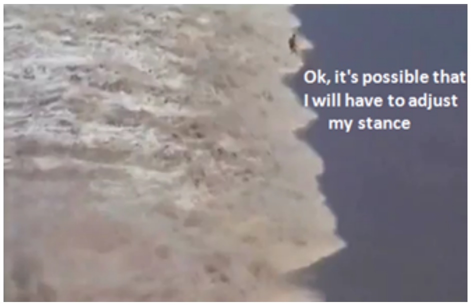


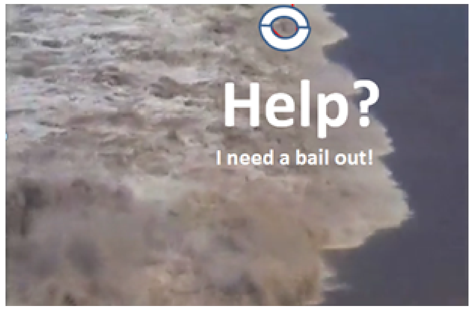
That said, it's big news, so we better get a good grandstand view to bring the story. Meanwhile, you just sit back in your chair, or the sand in this guy's case, and relax for our up-to-date, on-the-hour reports. There's no need for you to move from your position or consider this anything other than a modest financial wave common with the natural ebb and flow of an up and down financial yet tidal market.



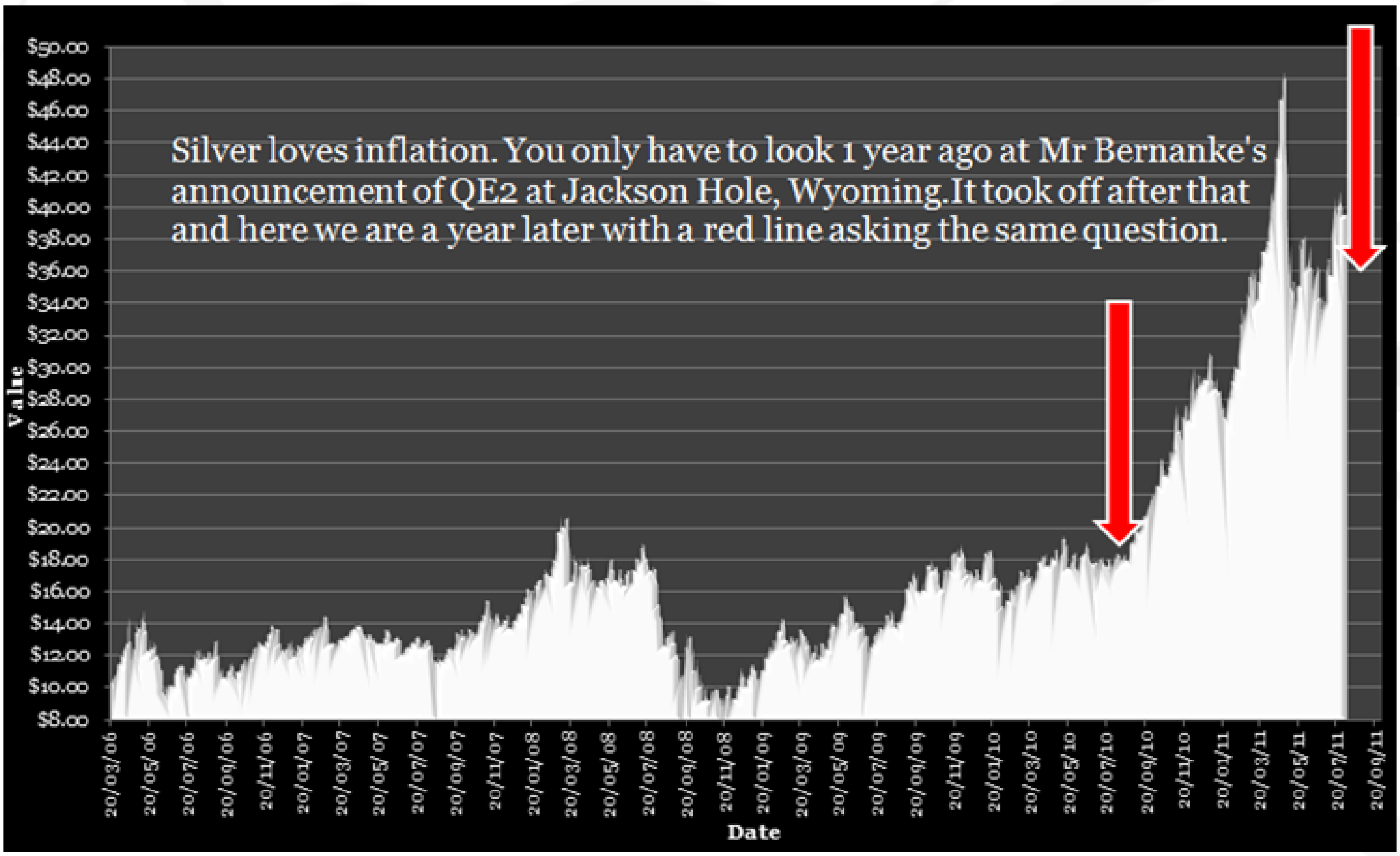
The man on the street/sand lifts his head in awe but doesn't understand the implications of events unfolding. Maybe it's time to reduce debt or something and forget buying that item on hire purchase. Let's adjust the budget and let that speculative property go. In financial terms, he thinks he can just make a few modifications to his lifestyle even though the world's reserve currency and unit by which most commodities are traded is bogged in a mire that sees its citizens, were they a family, earning an income of $58,000.00 a year but spending $75,000 all while juggling credit card debt to the tune of $327,000 for every man, woman, and child.

Meanwhile, as the average guy in the street feels the water lapping at his feet, it dawns on him the immensity of the situation, so he approves cutbacks to the tune of spending $3000 less per year. As for the principal? Forget it. This is the environment that Gold and Silver, along with commodities in general, have to rise in in the times ahead. Zero interest rate returns merged into rampant but unreported inflation or, as the term is now becoming frequently quoted, "financial repression" noted so well by authors C. Reinhart and K. Rogoff in *This Time Is Different: Eight Centuries of Financial Folly* as they comment on the way governments squeeze their citizens. (Very good book.)





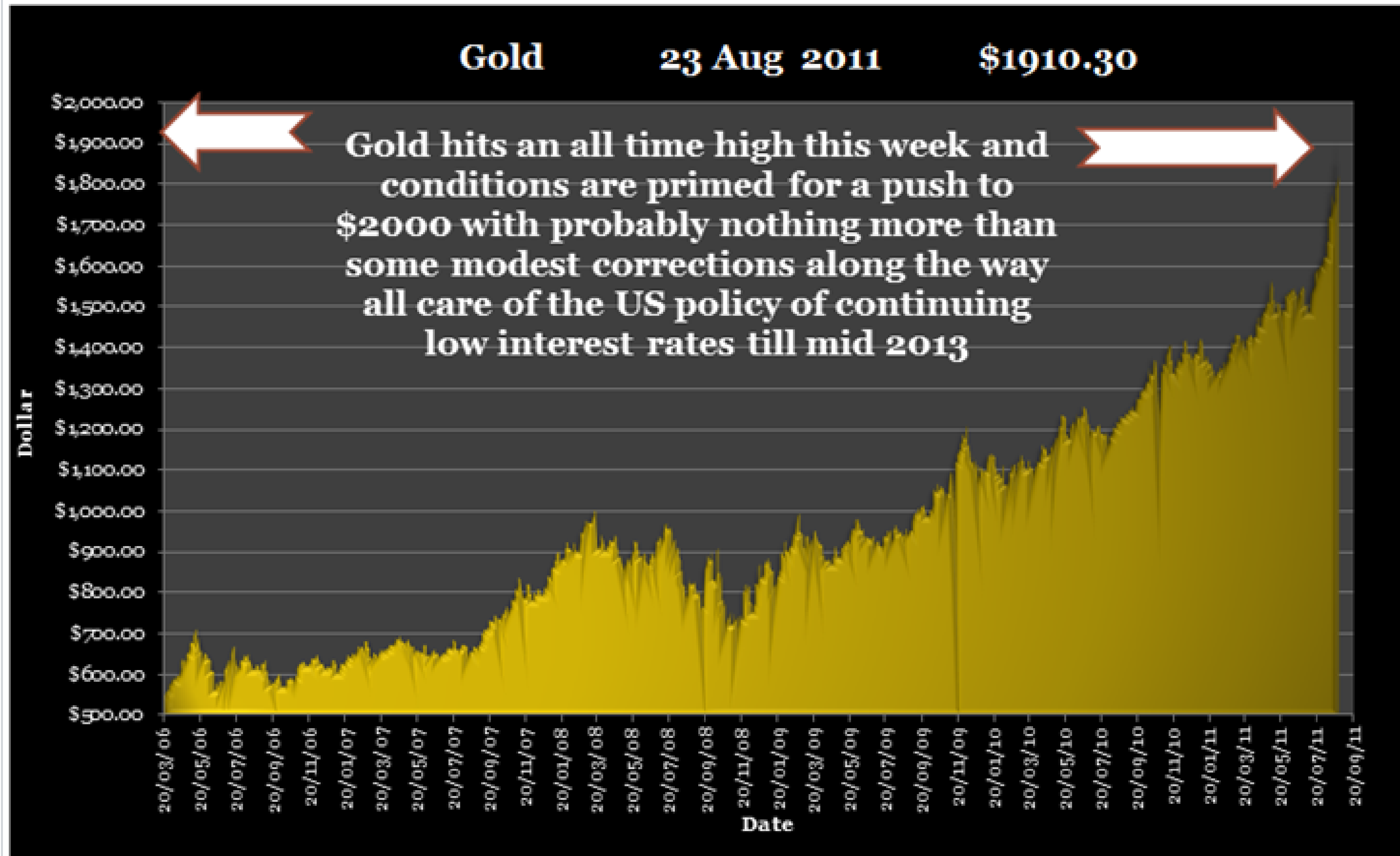
If you want to know what inflation looks like, check out my Silver graph and marvel at the supposed false adage of what a Northern Hemisphere summer is when pundits say, "Go away in May, come back at Labor Day."



source: Duncan Cameron

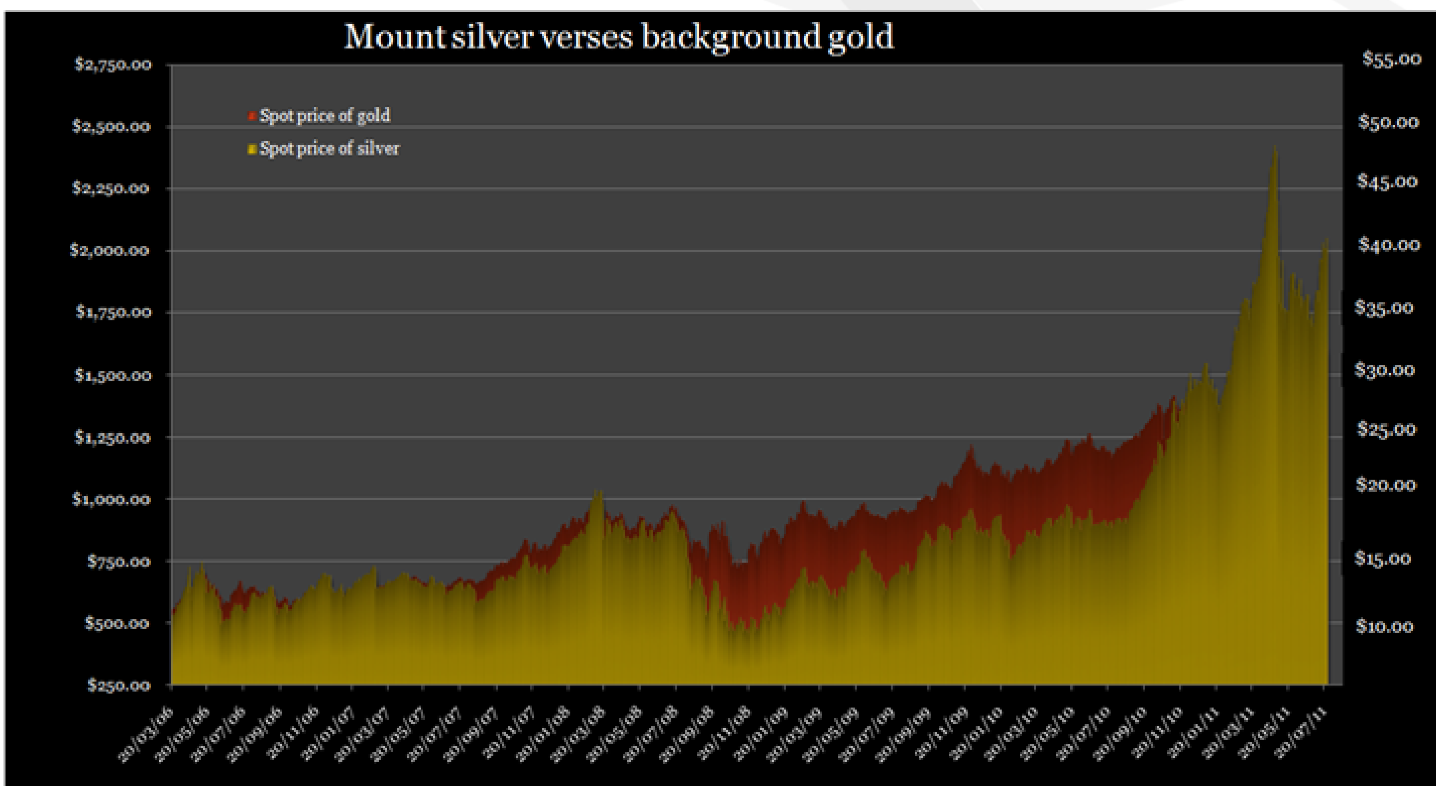
Sure we had our usual April blow off, but if you look at all the Silver expert's graphs and projection charts (including this writer's), we expected a sub $30.00 opportunity to buy more at discount prices. But alas- no one counted on this wave moving so fast and making a mockery of us all. Now we watch and wait for Fed Chairman Ben Bernanke at this week's summit as to his plans for more stimulus and ways to assist a recovery.

It's a sad thing that elected Senators and Congressmen hurl insults back and forth across a chamber while a group of private bankers call the real shots; but this is the world we live in. Clearly Gold is telling everyone a similar message. Last month's graph and the caption title has barely changed except for the price, which is $200.00 higher, and the declaration that interest rates will remain low well into mid 2013.



source: Duncan Cameron

While Gold is getting the entire spotlight lately post Silver's turn in recent months, it's still noteworthy to overlay Silver on Gold and be aware of which bang for the buck is still leading the pack. My estimation is Gold needs a thrust to in excess of $2200.00 or Silver must erode away and reveal Gold for a resumption of the superior safe play over Silver. I steadfastly maintain that Silver is a more exciting long-term investment, and history bears this out. By the time Ma and Pa want Gold, they will only be able to afford Silver or poor man's Gold as it's called.



source: Duncan Cameron

GATA HIGHLIGHTS

In early August Alex Stanczyk and I attended the prestigious GATA conference held at the Savoy in London. The speaker lineup was an impressive list of who's who, and everyone was worth listening to. It was nice to see the legendary Jim Sinclair receive a standing ovation at his introduction to the speaker podium; his being dubbed "Mr. Gold" in the fraternity has been right so often. He was calling numbers when CNBC was calling it a wasteful and stupid investment many years ago. Through years of experience and analysis, he has stuck his neck out with various resistance points and reasons why. As each angel was reached, it would get rubbed out, and sure enough, $887.50 and then $1650 has come and gone.

Published originally back in 2009 when Gold traded between $700-$900 most of the year.

The question was raised, where to now?

Jim spelled out a series of targets, the first being $1764.00. In citing that, he stated it comes from a formula used by the great Jesse Livermore whom his father worked with. The real interesting observation around that projection was the potential for an exponential rise thereafter due to a loss of confidence in fiat currency.

For the benefit of the audience, he did give some additional stress points being $2400.00, $2850.00 and $3280.00. These may seem unbelievable to mainstream media but are in fact entirely possible due to the medicine necessary to fix the system being so unpalatable, only ongoing versions of QE can be the response for central bankers.

PAGE OR "PAN ASIAN GOLD EXCHANGE"

I wrote about this last month, but Ned Taylor of Cheviot Asset Management gave a more in-depth presentation, and I had the opportunity to quiz him closely after as well. The Exchange (PAGE) is very new. Its purpose is to allow buyers and sellers to redeem physical metal in mini contracts as low as 10 ounces of Silver that can be purchased in China through a link to your bank account. At maturity you can redeem the metal, roll it, or take cash. It's reasoned that Comex, with its open and non-apologetic massive leverage to the actual metal of 100/1, is seen as a weaker vessel compared to the transparency planned in PAGE. He presented a PowerPoint slide where for years Comex functioned like a dog whose banking masters represented the tail and the dog/Comex could be wagged at will. In turn, the head (being you and me) got dizzy as we were gyrated back and forth.

Having watched the way fast and dramatic margin requirements increase whenever the price rises, which in turn causes the speculative longs to close out their positions, no one doubts the power leverage both good and bad have in markets; however, in all the years I have listened to various interviews, the CME group have made it crystal clear that their role is to ensure orderly markets, not transparent ones - or words to that effect.

If Oil or Silver or whatever goes up too fast, they will alter the margin and consider that their civic duty. If you have problems with that, then 'don't speculate' is the word.

As Ned said to me, PAGE has the ability to cause the 99 paper pieces of Silver to disappear over time as the superior and more transparent price discoverable exchange gets preferred, because one deliverable ounce really is deliverable. No doubt time will tell!

SOME BACKGROUND

An estimated 800 to 1,000 companies from Shenzhen, Guangzhou, and Yongxing are expected to trade on the new exchange in China's Yongxing County, the Silver capital of China. The county accounts for one-fourth of China's total Silver production having produced 2,050 metric tons of Silver, 7.1 tons of Gold, 4,300 tons of bismuth, and 2.6 tons of platinum in 2010. **The exchange is expected to reach a trading volume of 1 trillion Yuan (US$155 billion) by the end of 2015.**

As pointed out, the Pan Asian Gold Exchange has signed an agreement with The Agricultural Bank of China (ABC) integrating its customer account information system with their platform (in laymen's terms added a suffix to your online bank account).

That means the exchange will have direct access to the accounts of 320 million retail customers, 2.7 million corporate clients, and nearly 24,000 branches. ABC is China's third-largest lender by assets. When it went public last year, it became the world's biggest ever initial public offering. **It currently ranks 8th among the Top 1000 World Banks, and Forbes Global 2000 named it the 25th-largest public company in the world.** That is one serious player.

For example, imagine buying Gold through your bank with the click of a mouse for that 10 ounces of $50.00 Silver where there is no margin and no derivative, but in fact you pay the full $500.00. Then compare it to the more speculative and highly leveraged Comex where the minimum futures contract is a 5000 oz one with a value of $250,000.00 based on $50.00 Silver and a margin requirement of 10% or whatever it is at the time. That will set you back a cool $25,000.00 although I am just quoting figuratively here for number's sake. If they double the margin, you need twice as much money to keep that position open, and it was only a month or so ago that Silver shooting up to $50.00 had CME Group (owns Comex) increase Silver margins from as little as $6,000.00 to $16,200.00.

PAGE has now created the first ever rolling spot contract that will allow Chinese banking clients to buy 10 ounces (the minimum transaction) of Gold contracts in RMB through their account directly linked to the Exchange. If you have an account with ABC, you can instantly buy Gold or Gold contracts. Ned went on to present the concept that this was even more than a trading vehicle; this was a back door way for the Chinese to introduce greater currency exposure via the Renminbi as more and more players spend their international currency into the Chinese currency system thereby creating a greater world presence financially.

Think about it … 320 million retail customers and 2.7 million corporate clients, all with the same Chinese appetite for precious metals, all now able to buy Gold in 10 ounce increments with the click of a button. Try overlaying the number of wealthy Chinese at over half a million, and you have a lot of money that can enter Silver and Gold and take delivery if they want.

A Porsche car weaves its way through pedestrian traffic in a hutong neighborhood in Beijing. The number of millionaires in China grew by 12 percent to 534,500 last year. Keith Bedford / Bloomberg

Millionaires in the Asia Pacific region overtook Europe in terms of population and wealth for the first time in 2010 bolstered by growth in China and India as reported by Bloomberg.

About 53% of the world's millionaires, or individuals with at least $1 million in investable assets excluding primary residences and collectibles, are found in the US, Japan and Germany.

The wealth of 3.3 million high-net-worth individuals in the Asia-Pacific region climbed 12.1% last year to $10.8 trillion.

SO YOU OWN REAL PHYSICAL GOLD! OKAY - WHERE DO YOU OWN IT?

I have been studying various prospectuses of the world's largest ETFs which for the uninitiated are the preferred vehicles for large buyers seeking a trading aspect free from the constraints of physical possession, insurance, storage and the buying/selling process.

It's one thing to have a few coins you buy from a local shop; it's another entirely different thing when it comes to dealing in millions where for whatever reason you want a greater degree of transparency in the underlying metal held or, if you are a mutual fund, that can't legally trade outside the stock markets.

As one of the prospectuses chosen at random says in their opening page, there exists an ability to redeem into Gold, but a word of caution; not all ETFs are created equal. The issue is the way they are held and accounted for, much less redeemed, if in fact that is possible. For some of them in our top list, this is definitely not the case. More importantly, the lack of external audit or foxes guarding the henhouse is a real worry.

Table 4: Top gold-backed ETFs by size[1]

Fund	Volume (tonnes)	Value (US$mn)	% of total	Exchange[2]	Region
SPDR Gold Shares (GLD)	1,208.2	58,481	56.1%	NYSE	North America
ZKB Gold ETF	196.0	9,489	9.1%	SIX Swiss SE	Europe
iShares Gold Trust	144.3	6,983	6.7%	NYSE	North America
ETFS Physical Gold	131.5	6,367	6.1%	London SE	Europe
Gold Bullion Securities - UK	115.3	5,583	5.4%	London SE	Europe
Julius Baer Physical Gold	95.4	4,618	4.4%	SIX Swiss SE	Europe
XETRA-Gold	49.0	2,371	2.3%	Deutsche Boerse	Europe
NewGold	48.1	2,328	2.2%	Johannesburg SE	Africa
CS II Gold ETF	42.4	2,051	2.0%	SIX Swiss SE	Europe
ETFS Physical Swiss Gold Shares	28.6	1,383	1.3%	NYSE	North America
UBS Index Solutions - Gold ETF	25.0	1,209	1.2%	SIX Swiss SE	Europe
Source Gold ETC	24.6	1,190	1.1%	London SE	Europe
db Gold ETC	23.6	1,143	1.1%	Deutsche Boerse	Europe
Gold Bullion Securities - Australia	14.7	714	0.7%	Australian SE	Asia-Pacific
ETFS Physical Swiss Gold Shares	6.2	298	0.3%	London SE	Europe
GOLDIST	1.4	70	0.1%	Istanbul SE	Middle East
RBS Physical Gold	0.8	40	0.0%	Deutsche Boerse	Europe
Dubai Gold Securities	0.2	7	0.0%	Nasdaq Dubai	Middle East
Total	2,155.3	104,325	100.0%		

1 Only fully gold-backed gold ETFs are included. Tonnage as of 30 June 2011. Where data is unavailable, holdings have been calculated using reported AUM numbers.

2 This column contains the primary exchange of where the ETF is listed. 'SE' stands for stock exchange.

Source: Respective ETF/ETC providers, Bloomberg, LBMA, World Gold Council

WHY DO I DISCUSS ETFs?

Well, quite aside from being the bane of mining share holders who justifiably feel that precious metal investment money on a massive scale heads off to dubious ETFs leaving a dearth of investment money for the primary producers and explorers, the question Mr. James Rickards addressed at the GATA conference was regarding **the subject of how safe is your Gold in any form if government can tax your gains away?**

He had many in the room squirming as he expounded on the issues concerning where and how safe your Gold is as it was a very international group with some 38 nations represented. At any luncheon or dinner night I could find myself sitting beside a mining CEO, investor or leader of some sort, so it was with real interest that Mr. Rickards, whose pedigree goes as far back as the 90s where he was part of the negotiating team at LTCM, the hedge fund that exploded in a mini Lehman brothers type event.

He stated **the American government was very liable to impose an excess profits tax on Gold miners and a windfall profits tax on holders of Gold bullion**. In addition, he made it clear when I asked him in front of the whole GATA gathering for the benefit of Silver that it could not automatically be assumed as a safe haven arbitrage for fleeing Gold investors over to Silver.

He also said that the Americans at some point could/would move to confiscate all the foreign-government-owned Gold that's actually stored in the United States. He said if he were the Germans, he'd be sending the ships over right away. For history's train spotters, a visit down research lane will reveal that is exactly what the French did 40 years ago. As my cut and paste warship gun image shows, superimpose the geopolitical implications if Germany sent a warship into New York as happened 40 years ago to ask for their Gold, and play around with that in your brain!

You think Chavez out of Venezuela can cause a fuss for a few hundred tons - - -

Imagine the Europeans demanding their thousands of tons of Gold doing the same thing De Gaulle did in the months leading up to the 1971 closing of the Gold window.

Most people tend to assume they couldn't possibly do a Roosevelt and confiscate the Gold again. **Mr Rickards made it clear they can confiscate it through taxes, which is unfortunately true. If they can confiscate through taxes, they can by law very easily access ETFs** which makes privately-owned Gold in a safe haven country like Switzerland ever more prescient in troubled times - a lesson not lost on history's wealth owners seeking safety.

CLOSING THOUGHTS

From the pages of history in a book titled Fiat Money Inflation in France written over a hundred years ago (you can download free from the Mises Institute), I am quoting the author's comments on the French's experiment decoupling paper from Gold:

"It would be a great mistake to suppose that the statesmen of France, or the French people, were ignorant of the dangers in issuing irredeemable paper money. No matter how skillfully the bright side of such a currency was exhibited, all thoughtful men in France remembered its dark side. They knew too well, from that ruinous experience seventy years before in John Law's time, the difficulties and dangers of a currency not well based and controlled. They had then learned how easy it is to issue it; how difficult it is to check its over-issue; how seductively it leads to the absorption of the means of the workingmen and men of small fortunes; how heavily it falls on all those living on fixed incomes, salaries or wages; how securely it creates on the ruins of the prosperity of all men of meager means a class of debauched speculators, the most injurious class a nation can harbor, more injurious, indeed than professional criminals whom the law recognizes and can throttle; how it stimulates overproduction at first and leaves every industry flaccid afterward; how it breaks down thrift and develops political and social immorality. All this France has been thoroughly taught by experience."

Seems history is not without irony as we look back 40 or 140 years ago! Remember that 10% of the population holding an unshakable belief and what can change in the blink of an eye.

Till next time, take care.

Duncan

Confidence Crushed, Gold Goes Ballistic

By Alex Stanczyk

Dear Friend and Client of AFE,
Our recent attendance of the GATA Gold Rush event that we sponsored in London has confirmed what we have been saying for many years now. Paper continues to lose value and the world is only beginning to head for gold.

Gold Price % Annual Change — Sunday, August 21, 2011

	USD	AUD	CAD	CHF	CNY	EUR	GBP	INR	JPY
2002	24.7%	13.3%	22.8%	5.7%	-	6.4%	13.1%	23.9%	-
2003	21.1%	-8.5%	0.6%	7.6%	-	1.7%	9.9%	14.8%	-
2004	5.4%	1.4%	-2.1%	-3.5%	13.6%	-3.1%	-2.4%	0.5%	3.7%
2005	20.0%	28.9%	15.4%	37.8%	21.3%	36.7%	33.0%	24.2%	37.6%
2006	23.0%	12.6%	23.0%	14.2%	18.7%	10.6%	8.3%	20.8%	24.4%
2007	30.9%	18.3%	12.1%	21.7%	23.3%	18.4%	29.2%	16.5%	22.9%
2008	5.6%	31.3%	30.1%	-0.1%	-2.4%	10.5%	43.2%	28.8%	-14.4%
2009	23.4%	-3.0%	5.9%	20.1%	23.6%	20.7%	12.7%	19.3%	26.8%
2010	27.1%	13.3%	21.3%	15.4%	22.8%	37.1%	31.4%	22.3%	11.4%
2011	30.1%	27.4%	29.7%	9.7%	26.5%	21.0%	22.1%	33.2%	22.1%
Average	21.1%	13.5%	15.9%	12.9%	18.4%	16.0%	20.1%	20.4%	16.8%

The unserviceable levels of debt in western world governments is coming home to roost. Massive injections of liquidity since 2008 have not done much in the way real results, and the world has taken notice.

Europe is just starting a massive QE effort with the ECB directly buying Portuguese, Irish, Spanish, and Italian government debt. Combined with the US downgrade from its AAA credit rating and the stage is set for a good amount of fear in the marketplace.

Over the longer term, fundamentals continue to get stronger for gold and silver, which should only build in momentum as we enter 2012 and 2013.

It has been admitted by JPM that gold could pass $2500 by the end of 2011 - this is certainly possible as we are only now entering the end of year seasonal period which usually is the strongest time of the year for gold.[1]

Central Banks Continue to buy gold, having purchased 192.3 tonnes in the first two quarters of 2011 according to the WGC. Just as interesting to me as the data, is the fact that WGC chooses to report these figures in the gold SUPPLY category. This reflects the fact that for 20+ years Central Banks have continually sold into the market place and are generally considered suppliers. The fact they are buying means things have changed in the world of money.

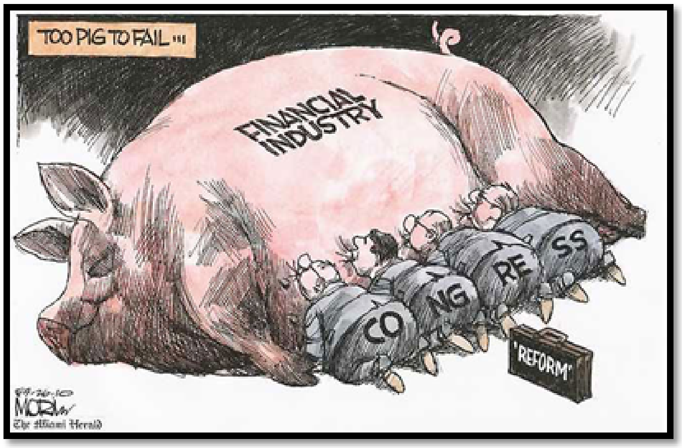
Table 4: Gold supply and demand (tonnes, World Gold Council presentation)

	2009	2010	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10	Q1'11	Q2 '11[1]	Q2'11 vs Q2'10 % chg	4-quarter % chg[2]
Supply												
Mine production	2,588.8	2,698.0	683.5	677.2	622.2	659.4	712.7	703.7	646.7	708.8	7	5
Net producer hedging	-236.4	-108.4	-96.7	-108.9	-18.7	18.8	-54.4	-54.1	6.1	-10.0	-	-
Total mine supply	2,352.4	2,589.7	586.9	568.2	603.5	678.1	658.3	649.7	652.8	698.8	3	9
Official sector sales[3]	33.6	-73.6	-9.7	-10.2	-58.8	-14.1	-23.0	22.2	-122.9	-69.4	-	-
Recycled gold	1,694.7	1,645.5	302.9	408.4	369.3	444.3	376.9	455.0	350.9	429.3	-3	6
Total supply	4,080.6	4,161.6	880.1	966.3	914.0	1,108.3	1,012.3	1,126.9	880.9	1,058.7	-4	5

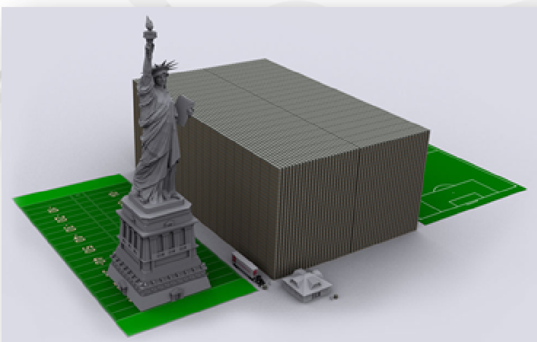
Likely Quantitative Easing (AKA the digital printing of more debt / more money) from the Federal Reserve and the ECB as well as other nations trying to maintain some semblance of parity with the USD will continue to cause inflation globally in prices of food and fuel, as there is no other solution to the rampant debt problems from a structural perspective.

The spectacle in Washington over the debt ceiling has done nothing more than send a clear signal to the world that political brinkmanship is the flavor of the day, and that we cannot look to the leadership of Washington DC to save the world.

GOLD IS NOT IN A BUBBLE



The below graphic gives you an idea just how big the US Debt is. That pile of money is the visual equivalent of $14.645 Trillion USD stacked up in $100 Bills.



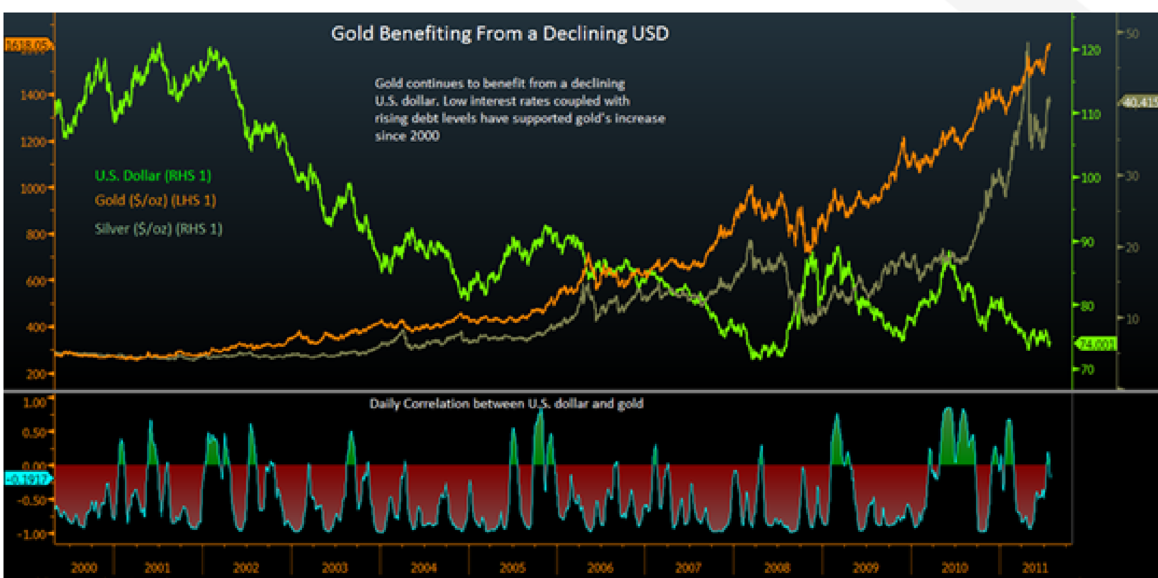
The net effect of all this is a continual loss of confidence in government ability to manage the financial situation. This is expressed in a continually plummeting purchasing power of fiat money globally, and the continual rise in the price of gold.

By every nominal metric that can be applied, gold is not in a bubble, bonds and paper money is. A recent interview with a "financial professional" on one of the top networks has the interviewer asking the question "you have been saying gold is in a bubble for several years now, do you think its time to admit you were wrong and that is still going to go up?" The answer was a very telling "No, at some point this call will be correct" - but more importantly what he said next tells me that mainstream financial professionals still do not get it. He went on to say "there is nothing you can measure gold against that provides any justification as to why its rising like this". This gentleman has obviously never bothered to look at the size of western nation debt, nor the growth of monetary supply.

I have observed that most people try to determine if gold is in bubble territory using a nominal terms framework, meaning they look at the record nominal gold price and technical charts then try to give it their best guess. There are some who say ignore the signs, and watch the charts only, that is to say, the numbers and not the psychology. What strikes me as a potential weakness in this approach is that we are in a time and situation that has never occurred before in all of human history, so to assume technical analysis is going to give us an accurate forecast may not be so wise:

1. The entire world economy is operating on a single reserve currency that is backed by nothing but the promises of an obviously failing government

2. The amount of money supply (debt) that has been injected into this economy is ten times higher than the money supply (debt) in existence during the last bull market of the 1970's



Bubbles are clearly marked by a common bias, ie the majority of the population has a common belief that it is the best investment to be in. Now when I say belief, I do not mean saying something, I mean doing something. In other words, if you were to go by what many people say, you might think most people believe that gold is in a bubble and everyone is invested in it. Over the years I have learned that one of most consistent means of determining ones true belief is to "watch what they do not what they say". When applied to the gold market one can clearly see that we have reached no such level of investment in gold. Yes, many give it lip service as being in a bubble, but this is largely an incorrect perception based on the record price which is now widely reported. This does NOT reflect who actually owns gold. You can verify this on your own with simple research; whenever you hear someone say gold is in a bubble, ask them if they own any and I can almost guarantee you the answer will be no. The old saying that "A bubble is a bull market you haven't participated in" certainly has some truth to it. What is NOT widely reported is the RATE at which the money supply has grown since the last top in gold, and when compared to gold's price there is no-where near any correlation. Yes, there is a good bit of talk about debt, but without visualization it is difficult sometimes for the human mind to grasp the magnitude of the changes at hand. When compared to growth in money supply and debt since 1980, the gold price really isn't even a speed-bump yet.

GOLD SCRAP DRYING UP - GET READY FOR SERIOUS MOVEMENT

A little over one year ago AFE sent out our ***June 2010 edition of the Global Insider*** in which we discussed the gold supply demand equation. We pointed out that the only thing making up for the gaping 500 ton deficit in gold supply that central banks were no longer selling was the scrap gold supply which had made huge increases, up to 1600+ tonnes per annum.

The 2010 supply demand situation is as follows:

Mine supply of	~2500 tonne
Scrap supply of	~1650 tonne
Total:	~4150 tonne

When you subtract the 76 tonnes bought by central banks, you end up with about 4074 tonnes supply for the year.

Global Demand for 2010 was ~4000 tonne

Please note, that mining supply is relatively inelastic and does not change much year over year. Investment demand is skyrocketing.

When we published the newsletter, we emphasized that at some point the scrap supply of "Grandma's Gold" would run out. This appears to have begun. If it continues on this trajectory, **we are looking at a MAJOR portion of global annual gold supply drying up**, right when demand is skyrocketing. The potential effect on price moving forward should be obvious.

Excerpts from an article in *Reuters* 8/12:

(Reuters) - Handing out flyers at the corner of 47th Street and Fifth Avenue in New York City's Diamond District, Mariabi Peenya is having trouble finding passersby eager to sell their gold jewelry for cash

In Mexico City, Paulino Luna says fewer customers are coming to his small storefront in a colonial-era building, where he's been buying bullion for 25 years. And in Chennai, India, Daman Prakash Rathod finds the once-heaving crowd of local gold scrap sellers have all but disappeared.

Across the globe, the latest surge in gold prices - up as much as 20 percent since June as investors seek refuge from stock market turmoil and sovereign debt crises - is failing to lure as many people into selling their gilt mementos, heirlooms, and dusty family jewels as it did during the 2008 financial crisis.

CASH-FOR-GOLD PART OF U.S. CULTURE

The trend is perhaps most notable in the United States, which contributes about 10 percent of global scrap supply. Last year scrap supply was 143 tonnes - equivalent to more than 10 million wedding bands. Some of that recycled gold also comes from industrial sources such as computer motherboards.

Unlike some nations such as Turkey and India where recycling jewelry has been commonplace for decades, most Americans had been unaccustomed to the idea of selling off old jewelry. Then a network of cash-for-gold businesses popped up after 2008, thanks to the almost constant television and radio advertisements by pioneers such as Cash4Gold.com.

Now "We Buy Gold" signs are commonplace in windows of American main street stores.

Gold recycling in the United States reached its climax when a Cash4Gold ad featuring rapper MC Hammer aired during the 2009 Super Bowl, said Michael Toback, a board member of the 47th Street Business Improvement District in New York who also owns jewelry refiner Myron Toback.
In Manhattan's bustling Diamond District, many jewelry vendors say Americans may sell their remaining gold if economic conditions worsen. But many interviewed by Reuters agree that business has slowed by as much as a third from past year.

EMERGING ECONOMIES SLOW DOWN, TOO

The change in psychology is evident elsewhere as well. In the historic center of Mexico City, several streets are crowded with kiosks where people line up to sell gold chains, medallions, earrings or bracelets for cash. Vendors weigh it all on simple scales. But Luna says business is drying up.

"People don't have their parents' or grandparents' gold anymore; they've sold it," said Luna. "We are not seeing the same amount of volume that we saw before. Every day there is less, of both gold and silver."

"The selling crowd has disappeared," Daman Prakash Rathod, of gold wholesaler MNC Bullion, said by telephone from Chennai.

"The excessive scrap that used to come a few years ago has stopped, and people who have sold must be cursing themselves for doing so at lower prices."

The success of the massive cash-for-gold industry over the past three years, urging people to sell their gold, means there are fewer and fewer people with any "old gold" left.

Anyone who cashed out when gold prices spiked in 2008 missed a three-year bullion boom in which prices doubled. Now with the U.S. Federal Reserve having pledged two years of near-zero interest rates, the rally in gold prices shows no sign of slowing. But it seems those people who still have gold may be holding out for even higher prices.

"It's nothing like it was in 2008," says Peenya as he flagged passing New Yorkers, promising his price was best. "Either people are waiting till the price hits $2,000, or they are running out."

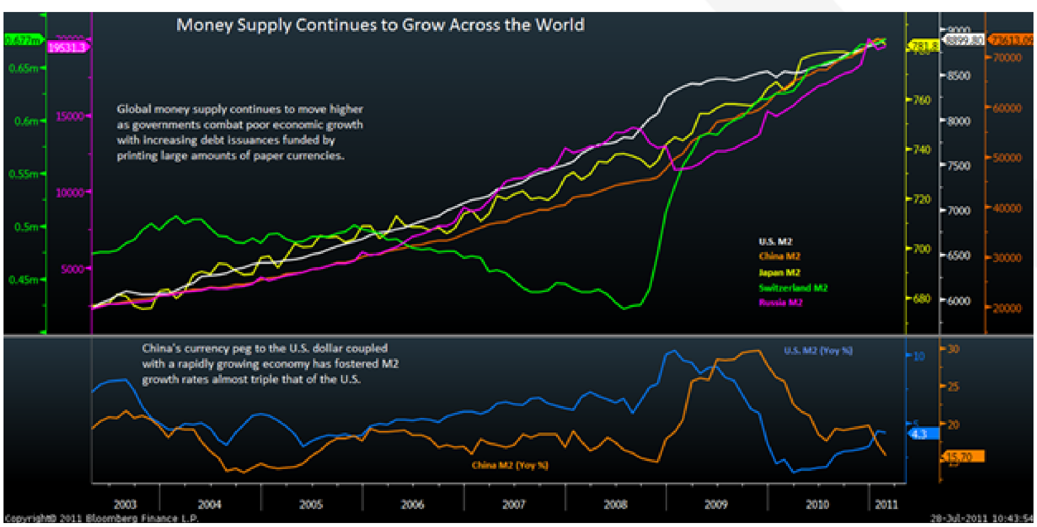
The implications of a dwindling supply of "scrap" gold, that which isn't mined, may hit the global bullion market even harder than it hits local pawn shops. Worldwide, recycled gold usually meets 40 percent of demand. But that share is now declining just as demand for physical bullion surges anew from investors and central banks. That may be yet another reason to expect gold prices to rise even further.

"The fact that scrap is not reacting as strongly as one might have expected to the stimulus of higher prices suggests those higher prices are more sustainable and price growth is easier," says Philip Klapwijk, executive chairman of respected metals analytics firm GFMS Ltd, a unit of Thomson Reuters.

Gold prices breached $1,800 an ounce for the first time this week, having almost tripled from its 2008 lows of $680.

"The easier-to-let-go stuff has been let go, so it gets progressively more difficult given the move in the price to stimulate the same growth in scrap," Klapwijk said.
In 2009, scrap supply surged by 30 percent to a record as consumers rushed to sell anything they had, both to turn a fast buck on a booming market and to cushion the blow of recession.

In the years since then, large amounts of recycled gold flooded the physical market. But growth has slowed sharply as people either run out of things to sell or wait for higher prices. Klapwijk expects recycled gold to grow by only about 5 percent this year.



IN SUMMARY

There are major forces at play which makes the fundamental picture in gold moving forward a compelling one. AFE started recommending gold to clients back in the mid 90's when it was under $400 an ounce. Today gold sits at $1700+, and AFE clients who took advantage of gold then are now up over 425%.

Frankly the fundamental picture for gold's continual increase in price is actually stronger now than it was back then. Central banks have ceased their 20 year habit 500 tonnes per year of selling and are now buying. Western nation debt is completely out of control, and Central Banks have no option but additional Quantitative Easing. The Eurozone is embarking on new rounds of QE with the US likely to follow shortly. Gold scrap appears to be thinning and it is the only thing which has added to global supply over the last to years to make up for the missing 500 tons Central Banks have supplied to the market each year for the last 20 years running. We are about to witness tectonic shifts in the supply demand picture that could make the current moves until now pale in comparison.

Fear not if you hold gold, and do not allow fear to determine your decisions on when to sell.
To your continued health, wealth, and prosperity,

Alex Stanczyk
Anglo Far-East

OPEN AN ACCOUNT NOW


Alex Stanczyk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