**The Advisory Corner**

Since we are in uncharted territory, I believe we must proceed with some caution... While the lending programs are designed to improve the flow of credit, they are currently injecting enormous amounts of liquidity into the economy. I believe we need to monitor that liquidity and its composition closely so that we are able to withdraw it when the time comes or else risk fueling inflation in the future.

—Charles Plasser, President, Philadelphia Federal Reserve

The inflationism of the currency systems of Europe has proceeded to extraordinary lengths. The various belligerent Governments, unable, or too timid or too short-sighted to secure from loans or taxes the resources they required, have printed notes for the balance.

—John Maynard Keynes, *The Economic Consequences of the Peace* (1919)

Obama’s plan is to create 3 million new jobs with 600k in the government. While the plan is enormous in scope, it will likely be an enormous waste of resources. It will have a short term positive impact that will last longer due to its size. However, the growth of government will be longer term as well and be a net drag to the economy in the long term. Contrary to what Keynesians believe, history shows that government remains the causation not the solution to economic problems.

—Andrew Busch, global foreign exchange market strategist, BMO Capital Markets

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GOLD SOARS IN FOREIGN CURRENCIES

Sometimes in our Americentric view, we forget that gold demand spans globally, and in much of the world gold is held in much higher regard than in the U.S. If you woke up in London, Paris, Sydney, or nearby Toronto last Friday morning, you awoke to headlines of “record high gold prices.” Just in the past few weeks, headlines in the foreign press have bombarded people with news of gold’s ascendance as the global recession tightens its grip.

- “Recession worries take gold to a fresh high” (India)
- “Gold at all-time high” (India)
- “Domestic Gold Prices on Steep Uptrend” (South Korea)
- “Gold offers safety in perilous economic waters” (Russia)
- “Figures show Dubai gold trade jump” (United Arab Emirates)
- “Vietnamese gold above VND 19 million on international price rally” (Vietnam)
- “Inflation bears now gold bugs” (Australia)

Even in the U.S., gold has managed to hold strong and even make some advances while the dollar has inexplicably rallied on misguided “safe haven” buying. Usually gold and the dollar move in opposite directions. In much of the rest of the world, gold’s value has skyrocketed in other leading currencies. Since the end of 2007 to February 16, 2009, gold prices have gained a net 13% in U.S. dollars, but gold demand in other countries has pushed the yellow metal as much as five times the rate of the rise in greenbacks.

- Euros... UP 30%
- Canadian Dollars... UP 47%
- Australian Dollars... UP 52%
- British Pounds... UP 63%

A metals analyst friend of mine says a big jump in the dollar value of gold is just a matter of time: “This divergence in currency prices for the same commodity creates a ‘slingshot effect’ for gold’s price in dollar terms, as soon as the dollar begins to resume its long-term decline.”

He notes that the $4 trillion (and counting) flood of government stimulus money so far coupled with declining gold production makes higher gold prices a foregone conclusion. “The amount of above-ground gold is growing less than 2% per year, while the supply of paper money is growing by double-digits each year, leading to the inevitable conclusion that gold must rise in terms of the U.S. dollar (and most other currencies). Last year’s annual production of 2,500 tons is currently valued at about $70 billion, a drop in the bucket in terms of new trillion-dollar deficits and money supply increases,” he says.

Is there any recent news regarding the release of the new 2009 recreation of Saint-Gaudens Ultra High Relief Double Eagle?

The first thing everyone should be aware of is that production of these spectacular coins has commenced; however, the U.S Mint has experienced some minor shipping delays. The wait is really building the excitement for these coins. In the meantime, we just published an eight-page Special Report that covers all aspects of this historic coin, including the story behind the original attempts to mint the Ultra High Relief coin in 1907, its place in coin history and the U.S. Mint’s commitment to the faithful recreation of the 2009 version with special updates. Additionally, the Special Report points out why some analysts believe the $10 Indian Head Eagles, also designed by Saint-Gaudens, could be headed for higher prices because of all the publicity and new collector demand the 2009 Ultra High Relief issue is creating. If you have any interest in adding these coins to your collections, it might be wise to act sooner rather than later as it could save you money on your key coin acquisitions. To receive a FREE COPY of this indispensable Special Report, contact your account representative today toll free at (800) 321-8700.

How has the gold coin business been lately?

We have had record numbers of new clients ordering this year. Overall, sales are up. Gold demand and sales worldwide are up dramatically as gold touches record levels worldwide.
If the world’s central bankers were on a beach in the Caribbean, they’d probably be competing in a game of “how low can you go” under the limbo bar. Since the summer of 2008, the bankers have been vying to see who can devalue their currencies the fastest in what is being called by many a “race to the bottom.” None of them, it seems, wants to have a currency that is stronger than their trading partners’ currencies.

The implications of this currency-debasing contest are huge for gold. As more people realize that the paper stuff that pretends to be money is worth less and headed toward being worthless, many more of them will seek to own the only form of money that has held its buying power basically steady non-stop for more than 5,000 years – gold!

Chuck Butler, president of EverBank World Markets and editor of The Daily Pfenning, calls gold “The Uncertainty Hedge” and asks, “Are you uncertain as to what all this that’s going on is going to bring us?” Butler points out that “Central Banks all over the world are having a race to zero... Deposit rates no longer hold the hammer over gold’s non interest bearing status. So...When gold is on one scale, and cash (like dollars!) is on the other side of the scale... Guess what happens!”

You’re well familiar, I know, with the inverse correlation between gold and the dollar, about a 60% match. That means there’s a six-in-ten chance that when one goes up, the other will go down. Though they sometimes move in the same direction for a day or two or maybe even a few weeks, over the long haul they form an almost a perfect mirror image. Recently gold has been rising even in the face of a temporary rally in the dollar, hinting that the dollar may be losing relevance in gold’s value.

I fully expect the recent dollar rally to fold up and the buck to take a dive in the year ahead. If I’m right and the dollar-gold ratio holds true to history, it follows that gold should see a strong surge at some point within the next 18 months. The only real question, as I see it, is the magnitude of the surge. Conservative estimates put gold at around $1,000 by year-end, while other respected analysts are confident that we’ll be looking at $2,000 gold in the months ahead, if not by year-end then sometime in 2010. A few more speculative and perhaps extreme estimates put gold in the $5,000 to $10,000 range in the not-distant future. As much as I like to see rising prices for gold, I don’t want to see how desperate a shape the world would have to be in to drive gold to such highs at this point.

Actually, trying to project the actual price of gold even next week... or tomorrow, for that matter...is a purely speculative exercise. There are so many unknowns and shifting intangibles in the global economy now that it’s pretty much impossible to pin down future values for any asset with any degree of confidence.

However, we can look at the known facts and trends and apply some plain old common sense to make some fairly realistic assumptions about likely outcomes. What those facts reveal is that gold may be the only asset worth owning for perhaps as long as ten years forward.
The dollar's long slide toward oblivion that began in 2001 got interrupted last year by a surprising rally in the midst of the global meltdown that wrecked the world financial system. It wasn't because the foundations of the dollar got stronger — the fundamentals actually deteriorated alarmingly — but that the dollar alternatives were seen to be turning weaker at the same time. In the blind panic of the day, investors drowning in a vast sea of red ink grasped for anything to help them stay afloat, which in this case surprisingly often turned out to be short-term Treasuries.

Meanwhile, gold got sold off sharply (though not as severely as other precious metals and other commodities — and far less than stocks). The retreat in gold's bullish advance was driven in part by the inexplicable surge in the dollar and by being a source of liquidity for stock market players needing quick cash to meet margin calls as equities did a half-gainer off the high board. In other words, gold was doing its safe haven job superbly in an unexpected way.

But the dollar rally was based on false premises and is unlikely to last. The gold retreat was an anomaly spawned from bizarre circumstances and is unlikely to last, too.

One analyst who gives me an up-to-the-minute briefing every week on precious metals markets, sees a pattern of deliberate official pressure to devalue the dollar. “We see there is evidence that the US (both Bush and Obama administrations) will favor a weaker U.S. dollar in 2009, in part to help boost American exports and help stimulate economic growth. This weaker dollar will also rise against all currencies. It doesn't matter if the dollar rallies against the Euro or China or Japan. Smaller countries are devaluing their currencies right and left. This looks like a race to the bottom, with every nation seeking the lowest-priced currency to stimulate domestic trade. The good news for holders of gold and other precious metals is that the metals can now do China and Japan. Smaller countries are devaluing their currencies right and left. This looks like a race to the bottom, with every nation seeking the lowest-priced currency to stimulate domestic trade. The good news for holders of gold and other precious metals is that the metals can now rise against all currencies. It doesn’t matter if the dollar rallies against global currencies if all global currencies are in a mad race to see who can devalue most.”

Currencies have also been sliding in Russia, Belarus, Ukraine, Iceland, Pakistan, Australia, Great Britain, Canada, Hungary and Latvia among others. It’s like playing King of the Hill in reverse. My analyst friend finds it significant that the last international wave of currency devaluation spawmed the eight-year bull market for gold from 2001 to today.

BRACE YOURSELF
FILL YOUR OWN CENTRAL BANK VAULT NOW

“Gold is telling you that all paper assets are suspect,” says Frank McGehee, head dealer at Integrated Brokerage Services in Chicago. “As the recession deepens, there’s significant flows into gold as an asset class or a currency that cannot vanish overnight.”

Richard Daughty, editor of the popular newsletter The Mogambo Guru quoted frequently in Barron’s, Bill Bonner’s The Daily Reckoning, and elsewhere, recently expressed some of my sentiments.

“I have seen other people calculating that the budget deficit will range upwards to $2 trillion, and maybe much more. Mayor Bloomberg of New York says this because I thought I had become a hardened veteran of the government and the Federal Reserve acting like morons, and I had bravely resigned myself to the rapise that such idiocy deserved,” Daughty wrote.

“I keep thinking to myself that this is so Freaking Much Money (FMM) that it would only cost $2 trillion to give $10,000 in cash to every one of the 200 million adults in the whole damned country! Gaaaahhhhhh! I seem to remember, and police reports confirm, that this horrific news sent me screaming into the night, shouting not only, ‘Gaaaahhhhh!’ but also, ‘We’re freaking doomed, you morons! Buy gold and protect yourselves from Mother Nature’s Backlash (MNb) against your constantly acting stupid by electing spendthrift, promise-everything morons to government office, who have allowed the Federal Reserve to create so much money and credit to accommodate government deficit-spending that that government has now spent you into debtor’s hell to support a government So Freaking Huge (SFH) that the total of government spending constitutes half — half! — of all spending in the freaking country! Half!” Well said, Mogambo!

The consequences of not having a significant hoard of physical gold in your possession when the hyperinflation tsunami strikes is terrible to contemplate. Says The Mogambo Guru, “Those who are paranoid enough, smart enough or lucky enough to be sitting on piles of gold, silver and oil are no doubt sitting cool right about now, while those who are not similarly paranoid enough or well-stocked with gold, silver and oil must be going freaking nuts and their hearts are hammering boom, boom, boom as they watch their own destruction approaching.”

The choice is yours. You can trust your future financial well-being to the government that got us into this mess… or you can take charge of your own fate, become your own central banker, and fill your personal vault with gold and silver.

Though supplies of gold bullion coins are still fairly tight, we’re beginning to see some intermittent loosening of supply for American Gold Eagles. The U.S. Mint is also introducing a new Ultra High Relief $20 24-karat gold piece that I expect to be very popular. If you need to rebalance your assets with a larger gold component, I recommend doing it now. We are on the gold escalator together, as the rush to own gold escalates. We want to see the prices and premiums on gold bullion and rare gold coins easily climb very high and very quickly. For those customers who have expressed concerns that the current economic crisis could lead today’s Democratic controlled administration towards a repeat of the gold confiscation that occurred in 1933 under similar conditions, I urge caution. Two years ago I would have given small odds that we would have such an occurrence in my lifetime. Now, I see it as being of greater possibility although still not a probability. Recently a few doctors I’ve known for many years called to buy some gold. They insisted on half bullion and half numismatic gold as another layer of protection against the possibility of confiscation. I told them any 21st century confiscation act would surely differ from the one in 1933. They understood, but were firm about wanting at least half of their money in rare “numismatic collectible” gold coins and not just bullion. Dealers around the country are reporting more and more dealer-customer exchanges just like this one. That’s good for the future of the coin market on so many levels and makes me thankful I recommend and write books and newsletters on rare gold coins for our customers. One more word of caution to the wise. Be careful selling at gold parties, to hotel gold buyers or putting your gold in prepackaged envelopes seen on late night television. Many times they offer prices for your gold that are below what major coin and bullion dealers like us would gladly pay for the same items. Before selling, it is in your best interest to get a second offer, especially where rare numismatic collectible coins are concerned.

DELIBERATE DOLLAR DEVALUATION
Yet we keep hearing dire warnings of deflation and alarm bells sounding for the onset of Great Depression II. Stock values have plunged to lows not seen in five years. Houses on average are worth about what they were five years ago. Gasoline at the pump has plunged well under $2, when only last year it was well above $4 and flitting with $5 in some areas.

That would seem to contradict my outlook for hyperinflation, but look again. Inflation fell to .01% in December, according to the official version, bringing the annualized rate for the year down to 1.8%. That is slower inflation, but it's still a positive number — meaning prices are still going up, not deflating. They're just going up slower than at this time last year. Other than gasoline for your car, has your personal day-to-day cost of living gone down much? Does your health care cost any less? Are your home and auto insurance rates any lower? Has your phone bill gone down? Is your grocery bill less? Don’t even get me started about how the government has measured gold and platinum coin and jewelry prices over the years.

It is possible, maybe even probable, that we could see a period of "negative inflation," as the bureaucrats call it or "deflation" as we realists call it. It may last through the first half of 2009 or could be to year-end or longer. But we’re not there yet.

Consumers, who shoulder more than 70% of the American economy, are finally scared. In past recessions, consumers carried us through by buying more on credit. Now many are losing their source of income because of mass layoffs. The home equity ATM has been shut down. Now consumers have stopped spending wildly and are — lo and behold! — once again actually saving... at least those with any spare cash to save! In a perverse irony, the government doesn’t WANT people to be financially prudent and save money. The government wants us all to blow all of our income and then keep buying on credit many can’t afford and more can’t get.

As consumers buy less stuff, manufacturers gear down to make or import less stuff in order to match supply with demand. More businesses shut their doors, so even less stuff gets made to be bought and fewer employees earn income to buy them.

But then the full pressure off all that liquidity being forced into the economic pipeline hits. What happens when too much money chases too few goods? Right... You get a gold star! Inflation happens when there’s more money than goods to spend it on.

Hyperinflation happens when the gap between money supply and goods supply is huge and sudden. That's exactly what the Great Bush-Obama Money Flood is likely to cause. Instead of letting the economy fix itself and clean up the abuses and excesses of the last twenty years, which it is trying to do by way of the current recession, governments keep making it worse by trying to fix the solution.

When hyperinflation strikes, as I’m convinced it must at some point in coming years, unless there is a dramatic and highly unlikely vigorous rebound in the economy over the next few months, the Fed will be essentially helpless to do anything about it. If the economy remains fragile and on life-support when hyperinflation explodes, the Fed cannot raise rates to choke it off without choking the patient to death. Washington might be tempted to try price controls, but as has been shown time and again by history, price controls rarely help and typically make matters worse by reducing supply or driving up black market profiteering. Price controls also created a scary environment for honest businessmen trying to comply with the price control regulations and not run afoul of the laws.

Continuation of the dollar decline doesn’t automatically mean the smart money will again flee to the usual dollar offset magnets like the euro and yen in this drastically altered financial environment.

International investment guru Marc Faber, publisher of the Gloom, Boom, & Doom Report, said in a recent Barron’s Roundtable Report that investors should be prepared to be their own central bankers as the fiat currencies all swirl together down the porcelain drain.

“With the Fed buying up everything and boosting the federal deficit, hyperinflation will be the result down the line,” said Faber. “A true market low will be lower, but in a hyperinflating economy, you can have nominal price gains while going lower in real, or inflation-adjusted terms. Between the start of 2008 and November, almost every asset market collapsed, but the dollar was strong. After November the asset markets rebounded but the dollar went down again. There’s an inverse correlation. Dollar weakness is a signal that the Fed has succeeded in pushing liquidity into the system. Some say the dollar will collapse this year, but collapse against what? The euro? The Russian ruble? These currencies are even weaker. In the very long run, each citizen must become his own central bank. Every responsible citizen must hold some physical gold, platinum and silver — physically, not through derivatives.”

I’ve added emphasis to the last comments because the thought is so significant. Note that Faber is not saying stock up on gold ETF shares or mining stocks, but actual physical gold and other precious metals.

“If it were restricted to just one country, gold might be a little less resilient,” says Philip Gottthelf, president of Equinox Brokerage Group. “You’re looking at a global meltdown. It looks like all nations will follow the U.S.’s lead in re-inflating their economies. The smart money is moving into gold.”

In that same roundtable report from Barron’s, some other financial heavy-hitters weighed in alongside Faber with concerns about the state of the economy and the misguided efforts to fix it...

**FRED HICKEY, EDITOR OF THE HIGH-TECH STRATEGIST:**

“The government can’t cure a disease that has been more than a decade in the making. The U.S. has built up gigantic financial imbalances, and debt levels the world has never seen. Massive increases in public debt and spending can’t replace the lost private-sector debt and cutbacks in consumer spending, allowing us to go on our merry way.”

**SCOTT BLACK, FOUNDER AND PRESIDENT OF DELPHI MANAGEMENT IN BOSTON:**

“The consumer is dead. There has been a paradigm shift. The savings rate is going up. People are terrified. It’s like my parents’ generation after the Depression. Gross private domestic investment won’t go up, even if you give corporations tax incentives. There is too much idle capacity already. We can’t meaningfully reduce the trade deficit because we don’t manufacture enough goods that the rest of the world wants. That leaves government spending to create final demand for U.S. goods and services. Giving a tax cut to people who spend the money at Wal-Mart on products made in China isn’t going to do it.”

**MARC FABER:**

“There is no such thing as good public policy, certainly not in the U.S.... Fed policy has been a disaster. Instead of smoothing markets, it has increased volatility. By cutting interest rates the Fed created bubbles — in housing, in commodities. Now that the federal-funds rate has been slashed just about to zero, you’re not getting anything for your money when you deposit it in the banking system and buy Treasury bills.”

**BILL GROSS, FOUNDER AND CO-CHAIR INVESTMENT OFFICER OF PIMCO:**

“More likely, policy will come up short and we’ll have a global recession, perhaps into 2010. The important thing for investors is what happens in 2010, 2011 and 2012. We’re setting up for a low equity returns, low economic growth, high real interest rates and 5% to 6% to 7% returns, at most, on all asset classes. The double-digit rebound typical after selloffs isn’t going to happen.”
LESSONS FROM THE CIVIL WAR: HYPERINFLATION CAN HAPPEN HERE!

When we hear horror stories of extreme hyperinflation such as in current-day Zimbabwe or the notorious German experience of post-WWII Weimar Republic, we may tend to dismiss it as somebody else's problem that can't happen here in America.

It can...and it did!

During the American Civil War, both sides in the conflict struggled to fund the long-drawn-out war effort and resorted to printing copious amounts of paper money of questionable parity. In the early stages, the Confederacy's Confederacy was especially hard-hit because it had to print money to pay for the war. (Many southerners saw the war as a way to gain independence and establish their own country. However, the war resulted in the collapse of the Confederacy, and the South lost two-thirds of its wealth.

No specific details have been officially released but observers who’ve been following the G-20 developments believe behind-the-scenes plans are being drawn up to create a new Bretton-Woods style system of fixed exchange rates with a whole new set of currencies to replace the dollar, euro, and yen.

They’ll be called something different to disengage them from any stigmas attached to the old currencies. They will also be drastically debased, largely to monetize the unpayable U.S. public debt. In other words, they plan to devalue it away. The new currencies could be worth as little as one-tenth the current money unit value.

So what happens to all your dollar-denominated investments in the New World Order of Debased Money? Ninety percent of their worth evaporates overnight. Oh, supposedly there may be some one-time provisions to protect investors and savers from losing their shirts, pants, and socks. But let me ask you...from what you’ve seen of how world governments have handled the crisis of the past year — or of the buildup that led to it — how much do you trust any government to look out for your best interest?

NEW WORLD ORDER OF DEBASED MONEY

The race to the bottom for the world’s fiat currencies may already be baked into the cake if rumors of a G-20 plan for a massive synchronized devaluation prove true. As the worldwide crisis was spreading panic around the globe, calls for a “New World Order” in foreign exchange were openly touted. France and China were among the most vocal in calling for an overhaul of the major world currencies to a structure that would break the dollar hegemony as a reserve currency and spread it around to the euro and a pan-Asian currency to be created.

What conditions do we have today? We’re not

The absurdity of this farce is stark, giving evidence of just how mentally unbalanced the markets and governments have become. The response from politicians to the crisis confirms that Washington has gone stark raving mad along with Wall Street. Their solution to a collapsing credit market is...MORE CREDIT. Their solution to too much easy money flooding the system is...MORE EASY MONEY.

By this logic, they would try to cure an alcoholic by offering him more booze, or treat obesity by prescribing more junk food, or douse a fire by pouring gasoline on it. Clearly they shouldn’t be allowed around sharp instruments and should only be given crayons to write with.

In the extreme, we could eventually see a world full of Zimbabwe, which started off 2009 by printing up a Z$100 TRILLION note that’s worth about US$30. Though it’s not likely to get that bad here in the U.S., there is absolutely nothing legally built into today’s financial structure to prevent it from happening in the United States and elsewhere. Zimbabwe has no gold standard; we have no gold standard. Zimbabwe has a printing press, we have a printing press. Zimbabwe has no limits on how much money it can print; we have no limit on how much money Uncle Sam can print. Though impractical, it’s not impossible that the U.S. could tumble down the path of Zimbabwe to hyperinflation, if not to the same degree at least to a wealth-destroying level.

In the Barron’s Roundtable, Fred Hickey recalled the infamous hyperinflation of the Weimar Republic following WWI when the Reichsbank printed banknotes with a face value of 100 trillion Marks. “It’s hard to predict the market when you don’t know what the Fed will do. The Fed has tripled the size of its balance sheet and is plowing ground we have never seen before. Here are my facsimiles of deutsche marks from Weimar Germany. They collapsed in value when Germany started printing money after World War I. It happened very quickly and it can happen again.”

As a new president takes charge, every indication is that the incoming administration is committed to whatever level of degratation for the dollar is necessary to refate the economy and head off a deflationary recession or even depression...all in the name of the “common good,” but I truly hope President Obama is successful in doing what is truly in the best interest of our country. Huge new stimulus and bailout infusions of federal funds are planned on top of what the outgoing spendthrift administration has already pored into the U.S. economy...with no noticeable effect. Just as viral flu cannot be cured with antibiotics, massive doses of government money probably can’t cure the financial flu...it usually just has to run its course naturally with the help of a little chicken soup.

With plans President Obama has already announced, along with new ones that will likely be brought up when what’s been done so far doesn’t turn things around, we’re looking at a probable $2 trillion deficit for 2009 with the new year only a couple of new moons old. Even before he took the oath of office, Obama warned that Americans will be burdened with “trillion dollar deficits for years to come.”

The inevitable and unavoidable consequence of this Niagara Falls of liquidity cascading into a crowded economy almost certainly has to be hyperinflation. And hyperinflation usually means hyper-extended prices for gold.
LESSONS FROM THE CIVIL WAR: HYPERINFLATION CAN HAPPEN HERE!

When we hear horror stories of extreme hyperinflation such as in current-day Zimbabwe or the notorious German experience of post-WWII Weimar Republic, we may tend to dismiss it as somebody else's problem that can't happen here in America.

It can...and it did!

During the American Civil War, both sides in the conflict struggled to fund the long-drawn-out war effort and resorted to printing copious amounts of paper money of questionable parentage. In the early stages, the eb and flow of battle victories cast doubt on the ultimate winner, so people hoarded real money — gold, silver, and even copper coins — not trusting the paper printed by either side. Coins became hard to find. As a result, prices in paper money zoomed higher.

The Confederacy was especially hard-hit because the South had always relied on Northern or foreign capital sources. Cut off from most of its financial resources, the main source of “financing” was to print money, which became worth less and less until it ultimately became worthless as the tide of war turned against the South. Storekeepers would no longer accept it in payment and demanded hard currency.

Because of excessive paper money supply, during the course of the war the commodity index in the Confederacy rose at the rate of 10% per month. By the end of the conflict, the cost of living in the South was 92 times what it was before hostilities began. Altogether, the South lost two-thirds of its wealth during the war. (Many southerners survival was assisted by the black-eyed peas overlooked by conquering northern forces.)

It may be argued that the Civil War is nothing like today, so the example doesn’t apply now. It was an extreme circumstance. The banking system on both sides of the conflict was inadequate to the situation. They used the printing press indiscriminately.

What conditions do we have today? We’re not in a Civil War, but these are indeed extreme circumstances, the banking system has proved inadequate to the situation, and we use the printing press indiscriminately. The modern greenback may not sink to the bottom, but it could. France and China were among the most vocal in calling for an overhaul of the major world currencies to a structure that would break the dollar hegemony as a reserve currency and spread it around to the euro and a pan-Asian currency to be created.

No specific details have been officially released but observers who’ve been following the G-20 developments believe behind-the-scenes plans are being drawn up to create a new Bretton-Woods style system of fixed exchange rates with a whole new set of currencies to replace the dollar, euro, and yen.

They’ll be called something different to disingage them from any stigmas attached to the old currencies. They will also be drastically debased, largely to monetize the unrepayable U.S. public debt. In other words, they plan to devalue it away. The new currencies could be worth as little as one-tenth the current money unit values.

So what happens to all your dollar-denominated investments in the New World Order of debased money?

The race to the bottom for the world’s fiat currencies may already be baked into the cake if rumors of a G-20 plan for a massive synchronized devaluation prove true. As the worldwide crisis was spreading panic around the globe, calls for a “New World Order” in foreign exchange were openly touted. France and China were among the most vocal in calling for an overhaul of the major world currencies to a structure that would break the dollar hegemony as a reserve currency and spread it around to the euro and a pan-Asian currency to be created.

No specific details have been officially released but observers who’ve been following the G-20 developments believe behind-the-scenes plans are being drawn up to create a new Bretton-Woods style system of fixed exchange rates with a whole new set of currencies to replace the dollar, euro, and yen.

They’ll be called something different to disingage them from any stigmas attached to the old currencies. They will also be drastically debased, largely to monetize the unrepayable U.S. public debt. In other words, they plan to devalue it away. The new currencies could be worth as little as one-tenth the current money unit values.

So what happens to all your dollar-denominated investments in the New World Order? Or even euro- or yen-based assets? Ninety percent of their worth evaporates overnight. Oh, supposedly there may be some one-time provisions to protect investors and savers from losing their shirts, pants, and socks. But let me ask you...from what you've seen of how world governments have handled the crisis of the past year — or of the buildup that led to it — how much do you trust any government to look out for your best interest?

NEW WORLD ORDER OF DEBASED MONEY

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The Deflation Illusion

Yet we keep hearing dire warnings of deflation and alarm bells sounding for the onset of Great Depression II. Stock values have plunged to lows not seen in five years. House prices are average worth about what they were five years ago. Gasoline at the pump has plunged well under $2, when only last year it was well above $4 and flirting with $5 in some areas.

That would seem to contradict my outlook for hyperinflation, but look again. Inflation fell to .01% in December, according to the official version, bringing the annualized rate for the year down to 1.8%. That is slower inflation, but it’s still a positive number — meaning prices are still going up, not deflating. They’re just going up slower than at this time last year. Other than gasoline for your car, has your personal day-to-day cost of living gone down much? Does your health care cost any less? Are your home and auto insurance rates any lower? Has your phone bill gone down? Is your care cost any less? Are your home and auto insurance rates any lower?

It is possible, maybe even probable, that we could see a period of “negative inflation,” as the bureaucrats call it or “deflation” as we realists call it. It may last through the first few half of 2009 or could be to year-end or longer. But we’re not there yet.

Consumers, who shoulder more than 70% of the American economy, are finally scared. In past recessions, consumers carried us through by buying more on credit. Now all their credit lines are tapped out and typically being lowered, while many are losing their source of income because of mass layoffs. The home equity ATM has been shut down. Now consumers have stopped spending wildly and are — lo and behold! — once again actually saving…at least those with any spare cash to save! In a perverse irony, the government doesn’t WANT people to be financially prudent and save money. The government wants us all to blow all of our income and then keep buying on credit many can’t afford and more can’t get.

As consumers buy less stuff, manufacturers gear down to make or import less stuff in order to match supply with demand. More businesses shut their doors, so even less stuff gets made to be bought and fewer employees earn income to buy them. But then the full pressure off all that liquidity being forced into the economic pipeline hits. What happens when too much money chases too few goods? Right…You get a gold star! Inflation happens when there’s more money than goods to spend it on.

Hyperinflation happens when the gap between money supply and goods supply is huge and sudden. That’s exactly what the Great Bush-Obama Money Flood is likely to cause. Instead of letting the economy fix itself and clean up the excesses and excesses of the last twenty years, which it is trying to do by way of the current recession, governments keep making it worse by trying to fix the solution.

When hyperinflation strikes, as I’ve convinced it must at some point in coming years, unless there is a dramatic and highly unlikely vigorous rebound in the economy over the next few months, the Fed will be essentially helpless to do anything about it. If the economy remains fragile and on life-support when hyperinflation explodes, the Fed cannot raise rates to choke it off without choking the patient to death. Washington might be tempted to try price controls, but has as been shown time and again by history, price controls rarely help and typically make matters worse by reducing supply or driving up black market profiteering. Price controls also created a scary environment for honest businessmen trying to comply with the price control regulations and not run afoul of the laws.

Continuation of the dollar decline doesn’t automatically mean the smart money will again flee to the usual dollar offset magnets like the euro and yen in this drastically altered financial environment.

International investment guru Marc Faber, publisher of The Gloom, Boom, & Dooms Roundtable Report, said in a recent Barron’s Roundtable Report that investors should be prepared to be their own central bankers as the fiat currencies all swirl together down the porcelain drain.

“With the Fed buying up everything and boosting the federal deficit, hyperinflation will be the result down the line,” said Faber. “A true market low will be lower, but in a hyperinflating economy, you can have nominal price gains while going lower in real, or inflation-adjusted terms. Between the start of 2008 and November, almost every asset market collapsed, but the dollar was strong. After November the asset markets rebounded but the dollar went down again. There is an inverse correlation. Dollar weakness is a signal that the Fed has succeeded in pushing liquidity into the system. Some say the dollar will collapse this year, but collapse against what? The euro? The Russian ruble? These currencies are even weaker. In the very long run, each citizen must become his own central bank. Every responsible citizen must hold some physical gold, platinum and silver — physically, not through derivatives.”

I’ve added emphasis to the last comments because the thought is so significant. Note that Faber is not saying stock up on gold ETF shares or mining stocks, but actual physical gold and other precious metals.

“If it were restricted to just one country, gold might be a little less resilient,” says Philip Gotttheil, president of Equinox Brokerage Group. “You’re looking at a global meltdown. It looks like all nations will follow the U.S.’s lead in re-inflating their economies. The smart money is moving into gold.”

In that same roundtable report from Barron’s, some other financial heavy-hitters weighed in alongside Faber with concerns about the state of the economy and the misguided efforts to fix it...

Fred Hickey, editor of The High-Tech Strategist:

“The government can’t cure a disease that has been more than a decade in the making. The U.S. has built up gigantic financial imbalances, and debt levels the world has never seen. Massive increases in public debt and spending can’t replace the lost private-sector debt and cutbacks in consumer spending, allowing us to go on our merry way.”

Scott Black, founder and president of Delphi Management in Boston:

“The consumer is dead. There has been a paradigm shift. The savings rate is even weaker.

The double-digit rebound typical after selloffs isn’t going to happen.”

Marc Faber:

“There is no such thing as good public policy, certainly not in the U.S.…. Fed policy has been a disaster. Instead of smoothing markets, it has increased volatility. By cutting interest rates the Fed created bubbles — in housing, in commodities. Now that the federal-funds rate has been slashed just about to zero, you’re not getting anything for your money when you deposit it in the banking system and buy Treasury bills.”

Bill Gross, founder and co-chief investment officer of Pimco:

“More likely, policy will come up short and we’ll have a global recession, perhaps into 2010. The important thing for investors is what happens in 2010, 2011 and 2012. We’re setting up for a low equity returns, low economic growth, high real interest rates and 5% to 6% to 7% returns, at most, on all asset classes. The double-digit rebound typical after selloffs isn’t going to happen.”
The dollar’s long slide toward oblivion that began in 2001 got interrupted last year by a surprising rally in the midst of the global meltdown that wrecked the world financial system. It wasn’t because the foundations of the dollar got stronger — the fundamentals actually deteriorated alarmingly — but that the dollar alternatives were seen to be turning weaker at the same time. In the blind panic of the day, investors drowning in a vast sea of red ink grasped for anything to help them stay afloat, which in this case surprisingly often turned out to be short term Treasuries.

Meanwhile, gold got sold off sharply (though not as severely as other precious metals and other commodities — and FAR less than stocks). The retreat in gold’s bullish advance was driven in part by the inexplicable surge in the dollar and by being a source of liquidity for stock market players needing quick cash to meet margin calls as equities did a half-gainer off the high board. In other words, gold was doing its safe haven job superbly in an unexpected way.

But the dollar rally was based on false premises and is unlikely to last. The gold retreat was an anomaly spawned from bizarre circumstances and is unlikely to last, too.

One analyst who gives me an up-to-the-minute briefing every week on precious metals markets, sees a pattern of deliberate official pressure to devalue the dollar. “We see there is evidence that the U.S. (both Bush and Obama administrations) will favor a weaker U.S. dollar in 2009, in part to help boost American exports and help stimulate economic growth. This weaker dollar will also make imports more expensive and thereby help attack price deflation.” He notes that Fed Chairman Ben Bernanke is on record of liquidity for stock market players needing quick cash to meet margin calls as equities did a half-gainer off the high board. In other words, gold was doing its safe haven job superbly in an unexpected way.

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The consequences of not having a significant hoard of physical gold in your possession when the hyperinflation tsunami strikes is terrible to contemplate. Says The Mogambo Guru, “Those who are paranoid enough, smart enough or lucky enough to be sitting on piles of gold, silver and oil are no doubt sitting cool right about now, while those who are not similarly paranoid enough or well-stocked with gold, silver and oil must be going freaking nuts and their hearts are hammering boom, boom, boom as they watch their own destruction approaching.”

The choice is yours. You can trust your future financial well-being to the government that got us into this mess… or you can take charge of your own fate, become your own central banker, and fill your personal vault with gold and silver.

Though supplies of gold bullion coins are still fairly tight, we’re beginning to see some intermittent loosening of supply for American Gold Eagles. The U.S. Mint is also introducing a new Ultra High Relief $20 24-karat gold piece that I expect to be very popular. If you need to rebalance your assets with a larger gold component, I recommend doing it now. We are on the gold escalator together, as the rush to own gold escalates. Prices and premiums on gold bullion and rare gold coins could easily climb very high and very quickly. For those customers who have expressed concerns that the current economic crisis could lead today’s Democratic controlled administration towards a repeat of the gold confiscation that occurred in 1933 under similar conditions, I urge caution. Two years ago I would have given small odds that we would have such an occurrence in my lifetime. Now, I see it as being of greater possibility although still not a probability. Recently a few doctors I’ve known for many years called to buy some gold. They insisted on half bullion and half numismatic gold as another layer of protection against the possibility of confiscation. I told them any 21st century confiscation act would surely differ from the one in 1933. They understood, but were firm about wanting at least half of their money in rare “numismatic collectible” gold coins and not just bullion. Dealers around the country are reporting more and more dealer-customer exchanges just like this one. That’s good for the future of the coin market as well as for the reason I recommend writing books and newsletters on rare gold coins for our customers. One more word of caution to the wise. Be careful selling at gold parties, to hotel gold buyers or putting your gold in prepackaged envelopes seen on late night television. Many times they offer prices for your gold that are below what major coin and bullion dealers like us would gladly pay for the same items. Before selling, it is in your best interest to get a second offer, especially where rare numismatic collectible coins are concerned.
If the world’s central bankers were on a beach in the Caribbean, they’d probably be competing in a game of “how low can you go” under the limbo bar. Since the summer of 2008, the bankers have been vying to see who can devalue their currencies the fastest in what is being called by many a “race to the bottom.” None of them, it seems, wants to have a currency that is stronger than their trading partners’ currencies.

The implications of this currency-debasing contest are huge for gold. As more people realize that the paper stuff that pretends to be money is worth less and headed toward being worthless, many more of them will seek to own the only form of money that has held its buying power basically steady non-stop for more than 5,000 years – gold!

Chuck Butler, president of EverBank World Markets and editor of The Daily Pfenning, calls gold “The Uncertainty Hedge” and asks, “Are you uncertain as to what all this that’s going on is going to bring us?” Butler points out that “Central Banks all over the world are having a race to zero... Deposit rates no longer hold the hammer over gold’s non interest bearing status. So...When gold is on one scale, and cash (like dollars!) is on the other side of the scale... Guess what happens!”

You’re well familiar, I know, with the inverse correlation between gold and the dollar, about a 60% match. That means there’s a six-in-ten chance that when one goes up, the other will go down. Though they sometimes move in the same direction for a day or two or maybe even a few weeks, over the long haul they form an almost a perfect mirror image. Recently gold has been rising even in the face of a temporary rally in the dollar, hinting that the dollar may be losing relevance in gold’s value.

I fully expect the recent dollar rally to fold up and the buck to take a dive in the year ahead. If I’m right and the dollar-gold ratio holds true to history, it follows that gold should see a strong surge at some point within the next 18 months. The only real question, as I see it, is the magnitude of the surge.

Conservative estimates put gold at around $1,000 by year-end, while other respected analysts are confident that we’ll be looking at $2,000 gold in the months ahead, if not by year-end then sometime in 2010. A few more speculative and perhaps extreme estimates put gold in the $5,000 to $10,000 range in the not-distant future. As much as I like to see rising prices for gold, I don’t want to see how desperate a shape the world would have to be in to drive gold to such highs at this point.

Actually, trying to project the actual price of gold even next week... or tomorrow, for that matter... is a purely speculative exercise. There are so many unknowns and shifting intangibles in the global economy now that it’s pretty much impossible to pin down future values for any asset with any degree of confidence.

However, we can look at the known facts and trends and apply some plain old common sense to make some fairly realistic assumptions about likely outcomes. What those facts reveal is that gold may be the only asset worth owning for perhaps as long as ten years forward.
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Ask Mike

Advisory Corner

Sometimes in our Americentric view, we forget that gold demand spans globally, and in much of the world gold is held in much higher regard than in the U.S. If you woke up in London, Paris, Sydney, or nearby Toronto last Friday morning, you awoke to headlines of “record high gold prices.” Just in the past few weeks, headlines in the foreign press have bombarded people with news of gold’s ascendance as the global recession tightens its grip...

• “Recession worries take gold to a fresh high” (India)
• “Gold at all-time high” (India)
• “Domestic Gold Prices on Steep Uptrend” (South Korea)
• “Gold offers safety in perilous economic waters” (Russia)

Even in the U.S., gold has managed to hold strong and even make some advances while the dollar has inexplicably rallied on misguided “safe haven” buying. Usually gold and the dollar move in opposite directions. In much of the rest of the world, gold’s value has skyrocketed in other leading currencies. Since the end of 2007 to February 16, 2009, gold prices have gained a net 13% in U.S. dollars, but gold demand in other countries has pushed the yellow metal as much as five times the rate of the rise in greenbacks:

• Euros… UP 30%
• Canadian Dollars… UP 47%
• Australian Dollars… UP 52%
• British Pounds… UP 63%

A metals analyst friend of mine says a big jump in the dollar value of gold is just a matter of time: “This divergence in currency prices for the same commodity creates a ‘slingshot effect’ for gold’s price in dollar terms, as soon as the dollar begins to resume its long-term decline.”

He notes that the $4 trillion (and counting) flood of government stimulus money so far coupled with declining gold production makes higher gold prices a foregone conclusion. “The amount of above-ground gold is growing less than 2% per year, while the supply of paper money is growing by double-digits each year, leading to the inevitable conclusion that gold must rise in terms of the U.S. dollar (and most other currencies). Last year’s annual production of 2,900 tons is currently valued at about $70 billion, a drop in the bucket in terms of new trillion-dollar deficits and money supply increases,” he says.

Is there any recent news regarding the release of the new 2009 recreation of Saint-Gaudens Ultra High Relief Double Eagle?
The first thing everyone should be aware of is that production of these spectacular coins has commenced; however, the U.S. Mint has experienced some minor shipping delays. The wait is really building the excitement for these coins. In the meantime, we just published an eight-page Special Report that covers all aspects of this historic coin, including the story behind the original attempts to mint the Ultra High Relief coin in 1907, its place in coin history and the U.S. Mint’s commitment to the faithful recreation of the 2009 version with special updates. Additionally, the Special Report points out why some analysts believe the $10 Indian Head Eagles, also designed by Saint-Gaudens, could be headed for higher prices because of all the publicity and new collector demand the 2009 Ultra High Relief issue is creating. If you have any interest in adding these coins to your collections, it might be wise to act sooner rather than later as it could save you money on your key coin acquisitions. To receive a FREE COPY of this indispensable Special Report, contact your account representative today toll free at (800) 321-8700.

How has the gold coin business been lately?
We have had record numbers of new clients ordering this year. Overall, sales are up. Gold demand and sales worldwide are up dramatically as gold touches record levels worldwide.

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IMPORTANT NEW CUSTOMER DISCLOSURES AND AGREEMENT TO ARBITRATE

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