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Answering Your Questions

INFLATION v DEFLATION

Keeping interest rates low may have the **APPEARANCE** of stimulation, but that effect is **NOT** being passed on by the banks. Interest Rates on loans, even credit cards, have not declined in proportion to the drop in interest rates at the Fed. Therefore, the deflation aspect is shifting profits to banks further bailing them out to make up for their losses in the speculation of mortgages. **NOTHING** is being done to help the people or the economy whatsoever! They are **NOT** lowering borrowing costs of consumers or business so the Fed can pretend it is helping the economy, but it is **ONLY** helping the banks. If the banks passed on the low rates to borrowers, then there might be some stimulus effect.

It is **NOT** lower interest rates that will create inflation – but **HIGHER!** There are two primary factors to understand. (1) Keeping rates low (really negative) insofar as what banks are paying people for their cash, makes things like holding physical gold less onerous because you are not losing interest income. (2) Eventually the low rates will **NOT** stimulate borrowing, but a migration of capital from cash to private assets including stock where there is a real rate of return in dividends not attainable in a bank and this sets the stage for rising rates as there becomes **LESS** cash on deposit at the banks - **COMPETITION**. (3) When rates rise, this will send the government deficits into hype-active status causing the Sovereign Debt Crisis to accelerate.

Therefore, the whole point of reviewing historical events is critical for the plot remains the same – it is just the actors playing character role that change. The **Panic of 1796-1797**caused the end of Debtors Prison **ONLY** because so many **FAMOUS POLITICAL** people went to prison. The US was the emerging market and thus it was the same effect we saw in Russia and China after 1989. There are still booms within a declining trend but each rally fails to make new highs. Hence the trend remains intact. Those who cannot see the pattern in history are condemned to repeat the same mistakes. It was nice to hear Newt Gingrich say he isn't running for president to "***represent Goldman Sachs.***" But talk is cheap.

BLINDED BY DOGMA

Those who **ONLY** wish to see a single trend and everything has to be bullish gold because the world just has to collapse, are setting themselves up for a very serious loss. Gold declined for 19 years between 1980 and 1999 and all the same fundamental bullshit was still present. It is just far more complex than that. Those in search of some GURU who can forecast the future from a gut feeling, might as well move to some cult farm because you will soon be separated from all your wealth.

The whole purpose of creating a model is TO **ELIMINATE** human judgment because **NOBODY** can forecast the future in such a manner. The ONLY way to understand the future is (1) through the past, and (2) in a dispassionate black and white manner.

The numbers are the numbers. We need a closing **ABOVE** 1763 today and then **ABOVE** 1755 on Tuesday January 31st. Will this signal a bull market that never ends? Of course not! It will then signal gold will either make (1) a slightly higher high but remain within the channel increasing the threat of volatility to the point everyone's nose will bleed, or (2) it will bounce off of the next area of Weekly Bullish Reversals standing at 1925. However, a closing **BELOW** 1709 today will scrape the icing off the cake and a close **BELOW** 1680 would warn look out next week. The **Forecast Array** we published showing volatility rising next week. The **Directional Change** on the 23rd was correct. That is where gold broke-out to the upside.