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GOLD ANALYSIS

PONZI SCHEME COLLAPSE

Nichols gets even more bullish on gold

With continuing stress in western economies, particularly in the U.S, changing attitudes towards gold from Central Banks, the desire to diversify reserve holdings by some major economies and the growth in ETFs, the outlook for the gold price is strong.

Author: Lawrence Williams

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LONDON -

U.S. gold economist, Jeffrey Nichols, seems more bullish than ever on the prospects for substantial upwards movement in the price of gold over the next few years considering the latest development in the markets, perhaps even more so than in his previous analyses. While Nichols has tended to be a gold bull in the past he has also been one of the more sober commentators amongst this genre so his developing views do require some attention.

He feels the root causes of the current economic crisis - and his now extremely bullish views on gold - have been decades of easy money, low interest rates, and a persistently expansionary monetary and fiscal policy by the United States. As he put it in a speech to the Latin Exploration 2009 Conference in Buenos Aires last week, "As a result, Americans have been on a buying binge in the global marketplace, buying things we often don't really need with money we don't really have. And the rest of the world - especially China and the other Asian economic powerhouses - have been co-conspirators, lending us the money to satisfy our need for more things in order to promote economic growth and high employment in their own economies."

He likens the situation to a massive Ponzi scheme on a scale never before seen. "Beginning late in President Reagan's second term with the appointment of Alan Greenspan as Chairman of the U.S. Federal Reserve and continuing with Ben Bernanke at the helm of America's central bank, the Fed has pursued an expansionary, low interest-rate policy that has placed growth above all else" reckons Nichols. "During these years, every economic or financial-market crisis was met with injections of liquidity into the banks and financial markets with interest rate cuts often to negative inflation-adjusted rates of return.

"The stock market crash of 1987, the Gulf War beginning in 1990, the Mexican Peso Crisis in 1994, the Asian Currency Crisis in 1997, the Long-Term Capital Management bankruptcy in 1998, the Internet Dot-Com Bubble in 2000, and the U.S. Housing Bubble that ended in 2007:

"Each crisis was met with more money and lower interest rates - a policy that came to be known as the Greenspan Put and more recently the Bernanke Put because it assured many of the most reckless risk-takers they would not lose a red cent.

"We never would have had the last stock market boom carry valuations to such

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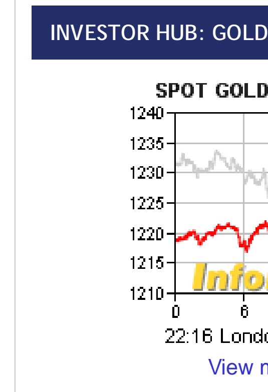

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