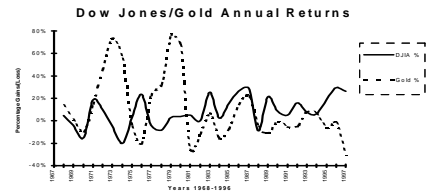




Gold

Energy & Tech Stocks

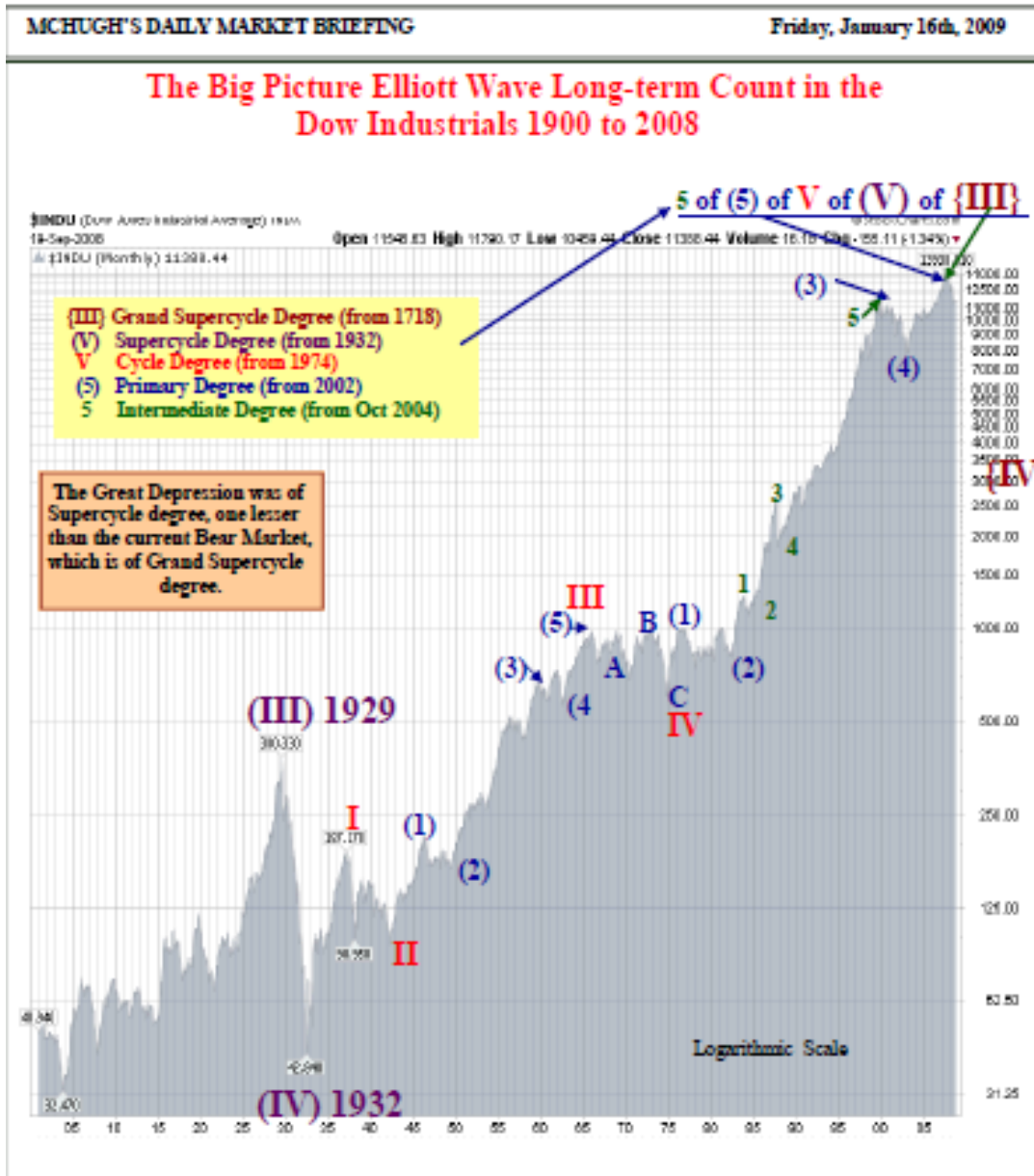


Volume 28, No. 2

(Now in Our 27th Year)

February 17, 2009

Are We Facing a “Cataclysmic, Nation Changing Event?”

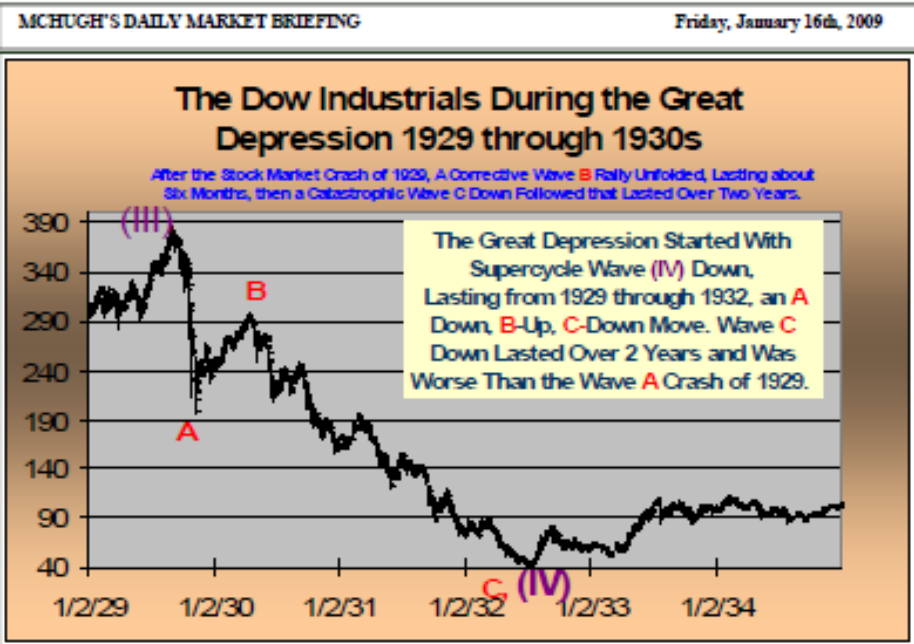


The chart on your left was taken with permission from Dr. Robert McHugh's January 16, 2009, weekly market newsletter. We interviewed Dr. McHugh in our December 2008 monthly letter, so those of you who had the opportunity to read that know where he stands and you know some of the reasons why he thinks we may not only be in for another Great Depression but that it could be much worse than the 1930s' scenario. McHugh believes we could pass through the eye of the storm as early as this spring and very possibly begin experiencing a *cataclysmic nation-changing event that corrects a bull market that began in 1718!*

McHugh is not saying this will happen for sure. He sees three alternative scenarios two of which are bad, but not nearly as bad as the one that would correct the bull market starting in 1718. We can only hope and pray for the

lesser of these three “evils” though regardless he sees the current market worse than the 1930s. In any event, we strongly suggest you check out Dr. McHugh's work at www.technicalindicatorindex.com. In McHugh's own words regarding his forecast:

“Here is a Big Picture Historical Elliott Wave Labeling for the Dow Industrials. It now appears that Armageddon is right around the corner, which would suggest the above labeling, placing us deep inside a developing Grand Supercycle Wave {IV} down, that Grand Supercycle wave {III} up is over, at the October 2007 top. Because the S&P 500 broke down below the October 2002 lows, we believe the worst-case wave {IV} scenario is occurring.



“If in fact Grand Supercycle {IV} is occurring, we believe it will change the United States’ political landscape like never before, to some form of totalitarian regime. Grand Supercycle waves change nations and governments. *The Great Depression was of Supercycle degree, wave (IV) down, and was not of Grand Supercycle degree, like the current Bear Market is, which means this Bear Market will be worse.*”

“The above chart shows the Supercycle Degree wave (IV) decline that kicked off the Great Depression of the 1930s. The point we want to make here is that the initial crash was merely wave A down of an A-down, B-up, C-down move that lasted in full about three and a half years.

“Wave A-down lasted about three months, from September 1929 through November 1929. Wave B-up corrected half the decline from Wave A-down, and lasted about six months

into April 1930.

“At that point, it was a critical error to assume the worst was over. In fact, it was far from over. A catastrophic Wave C-down started in April 1930 and lasted into the summer of 1932. That two-plus year decline was destined to wipe out more than the crash did, and take prices down to the point where the total damage from Wave (IV) was 90 percent from its wave (III) peak in 1929.

“The economy then was stuck in the throes of the Depression for the rest of the decade, only to be pulled out by the onset of World War II in the early 1940s.

“The point here is we cannot be fooled by this Grand Supercycle degree wave (IV) that started in October 2007. Wave A-down is over, and Wave B-up is underway. However, a catastrophic Wave C-down is coming, just like one did in 1930 through 1932.”

Dr. McHugh admonishes his subscribers to use this period of relative tranquility and to get liquid before the really big trouble gets underway. That in fact is what I am personally trying to do with some of the base metals and energy stocks that I still own and have purchased via private placements over the past few years.

Indeed we marvel at the inability of our Inflation Deflation Watch (below) to rise despite trillions of dollars of monetary and fiscal stimulus (Global U.S. Dollar Liquidity Measure –lower right chart) being pumped into the global economy. The fact is, just as in the 1930s, none of the stimulus policies worked. Only time and debt repudiation will clear excesses of debt and allow a growing economy again. Indeed it is not inconceivable in our view that the stage has been set for an equity bear market far more severe than anything our parents and grandparents experienced in the 1930s.

