DAILY RECKONING

3 Critical Warnings

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The Daily Reckoning provides over half a million subscribers with literary economic perspective, global market analysis and contrarian investment ideas. **In short, *The Daily Reckoning* shows you how to live well, even in uncertain times.**

In addition to your *Daily Reckoning* subscription, you are entitled to our FREE REPORT ***3 CRITICAL Warnings That Could Mean the Difference Between Growing Wealthy… Or Suffering a Vicious Decline in Your Net Worth***, which you will find below. We hope you enjoy your subscription, and please let us know if you have any questions!

3 CRITICAL Warnings That Could Mean the Difference Between Growing Wealthy… Or Suffering a Vicious Decline in Your Net Worth

Making accurate predictions is perhaps the most important activity you can do in finance, as they can make or break fortunes large and small. We've been making successful predictions for over a decade that have brought financial security and large profits to our readers, while many mainstream investors have lost their homes and financial security by listening to the "experts."

"Back in 2000, Bill Bonner, author of financial newsletter The Daily Reckoning, announced his trade of the decade. It was a simple one: Sell dollars, buy gold. It turned out to be a good plan. In 2000, you could buy an ounce of gold for $280 (the average price over the year). Now it will cost you $1,125. At the time, Bonner saw what most others did not..." — Merryn Somerset Webb of *Financial Times*, 2010.

"This is the blowoff phase for the Great Dollar Era. We're in an unsustainable trend right now…" — Addison Wiggin to The New York Times Magazine in 2005, shortly before the worst financial panic since the Great Depression.

"Calling it first and calling it right." — Newsmax

The honest and unconventional insight provided by Agora Financial and *Daily Reckoning* contributors has been recognized by numerous media sources, including *The New York Times, The Wall Street Journal, The Economist, Financial Times,* Reuters, *USA Today, FOX, ABC, Money, CBS, Business Week, U.S. News & World Report, The Washington Post, Chicago Tribune, San Francisco Chronicle, Los Angeles Times and The Daily Telegraph,* to name but a few…

Our analysts have been out in the field, reading reports, talking to CEOs, visiting laboratories and factories and reading between the lines in order to bring you the most accurate market forecasts possible across the investing spectrum.

These are three of the most important investing themes to be aware of for the coming year. We fully expect these themes to develop during the next 12 months… and they may change the investing landscape as we know it.

When game-changing events like these occur, they leave a trail of broken dreams and worthless portfolios for those caught unaware. Planning and preparation for these big events **can mean the difference between financial security and deep regret.** Let's begin!

PREDICTION No. 1: The "mother of all financial bubbles" will likely burst… but not before blowing up even bigger! Money manager Barry Ritholtz recently showed us an interesting spreadsheet: It showed a monthly survey of economists by Bloomberg going back to 2002, revealing their "expert" guesses about the 10-year Treasury yield over the following six months.

"In the history of finance," Barry says, "we cannot find a more one-sided opinion about a freely traded double-auction market." Ninety-seven percent of the time, a majority of economists predicted higher yields. On three occasions, including last May, the consensus was unanimous: The average forecast was for a yield of 2.4%. They were, of course, wrong… It turned out to be 1.7%.

The most recent survey? Ninety-four percent of economists surveyed expect higher rates by next May… and their average guess is 1.93%.

We'll take the other side of that trade.

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Indeed, we think the 30-year bull market has one more blow-off phase before the end. You need to act accordingly.

We see such an overwhelming consensus for higher yields and lower prices, it's leading us to an inescapable conclusion: **We'll see a black swan emerging early in the year — another debt ceiling crisis or, more likely, another euro-scare.** Hot money will flood back into the "safety" of Treasuries. The 10-year yield will plunge below its 1.4% record set last July. It might even go all the way down to 1%.

But that would be the final blowoff that would signal the beginning of a major bear market in bonds. In other words, we think interest rates will rise substantially over the next few years… but not quite yet.

"At some point," Barry says, "the bond bears are going to be right." We're confident that point will arrive before the end of the decade.

PREDICTION No. 2: Boomers' retirements are about to be crushed (again) in junk bonds and the wrong dividend stocks. First they lost their shirts in the tech bust. Then they lost their pants in the housing bust. And in 2013, the baby boomer cohort is about to be stripped of its skivvies… thanks to the Fed's zero interest rate policy. Because intermediate-term Treasuries and CDs yield close to nothing, savers have been trying to get some yield on their savings wherever they can find it. In this context, junk bonds seem appealing. They offer yields that are at least greater than zero, which is why many investors have been flooding into the junk bond market.

Bad call.

Understand the Fed's priorities: Saving and investing is their mortal enemy. "They want spending and speculating," says our macro strategist Dan Amoss, "and are willing to risk the entire monetary system in the process." Result: "Investors are taking foolish risks; they've bid up junk bonds and dividend stocks, pushing yields down in the process."

If only investing were as simple as buying risky assets when interest rates are stuck at zero. Ask the average Japanese investor how that's worked for them the last 20 years.

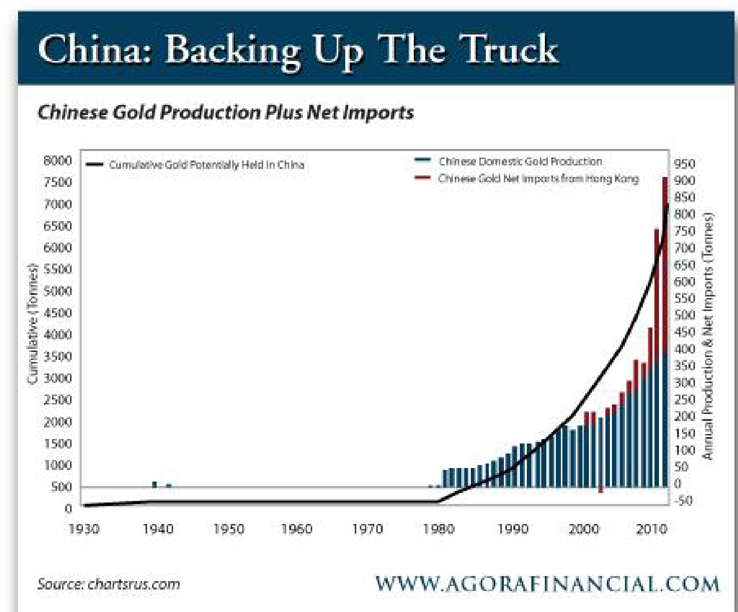
"The 2012 rallies in almost every stock and bond will not last," declares Dan. "When investors bid up junk bonds and stocks in a zero interest rate environment, they are simply pulling future returns into the present."

When interest rates start rising again, junk bond prices could plummet.

PREDICTION No. 3: We expect China to send gold on the next leg to $5,000. We stood up and took notice on April 24, 2009, when, out of nowhere, the Chinese government announced it had grown its gold reserves to 1,054 metric tons. The previous announcement came in 2003, when the number was only 600 metric tons.

Assuming another six-year lag, China's next announcement is due in 2015. Coincidentally, that's the year the former governor of China's central bank predicts his country will achieve full convertibility between the renminbi and other currencies. They can't make that happen without a much larger gold stash.

Some of that evidence already emerges in China's gold imports via Hong Kong. They've been off the charts during 2011 and 2012:



"The Chinese buy gold hand over fist!" sums up our precious metals and energy expert Byron King.

But that's not all they're doing…

- Domestic gold mining has propelled China to the No. 1 spot among world producers — bigger than longtime leader South Africa
- China's gold miners — most of them state-owned — are on a global gold mine-buying spree, as well.
- It is illegal to export gold from China. What's mined in China stays in China… which means there's ample gold for citizens to purchase, either directly or through ETFs (and the government encourages both).

"The Chinese government," said the Chinese central bank's research chief a year ago, "should

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not only be cautious of the imported risk caused by rising global inflation, but also further optimize its foreign exchange portfolio and purchase gold assets when the gold price shows a favorable fluctuation."

In other words: China is concerned enough about the global economy that it is **scooping up gold whenever prices dip**… in very large quantities. Last year, Chinese purchases represented about 25% of global gold demand. We expect this will continue for the foreseeable future.

Here in the U.S., the future we're facing is one of excessive money printing, bursting asset bubbles, government overspending and serious economic woes. Don't bother to look to U.S. Treasuries as your retirement "safe haven" like the herd or you may find yourself realizing why some of the largest private holders of U.S. Treasuries, such as Pimco, have gone short in recent years. Instead, look for moneymaking opportunities that everyone else isn't even thinking about and preserve the value of your assets by investing in precious metals.

Remember, this is your money and your future. No one else can decide what is best for you, and you have no obligation to follow the crowd as it hurls itself off the cliff like so many lemmings. These are just a few ideas to keep in mind in the coming months. The mainstream financial media will tell you the Eurocrisis is getting better, bond yields are going up and gold is a fool's bet. They were also saying housing prices would rise forever until, well, they fell 40% in 2008.

We know better than to listen to that. The best way to protect yourself during the coming financial storm is to steer clear of the pack. Keep a cool head, buy gold on the dips, stay away from junk bonds (including U.S. Treasuries) and anything connected to European banks and take economic forecasts with a huge grain of salt. We'll continue to fill you in on new strategies in the pages of *The Daily Reckoning.*

Regards,

Greg Kadajski
Managing Editor
The Daily Reckoning

The Mother of All Financial Bubbles Is Just Now Starting to Pop…

It's time to learn the truth… and to get prepared. If you have the right plan set up, you won't suffer when this bubble fully bursts.

But — and this is the most important point — you must have a plan. And you must be prepared before this epic crisis hits. Click **here** now.