

## MONEYIZATION #12

By

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### *THE VALUE VIEW GOLD REPORT*

**Moneyization: The global financial phenomenon of individuals and businesses moving their funds to monies in which they have the highest confidence, or money which has a higher store of faith.**

#### **Or, Good Time To Sell The Dollar**

The recent defeat, by French and Danish voters, of the EU's new constitution has provided an excellent opportunity for dollar handicapped investors to sell dollars and buy Gold. Market action that increases the over valuation of the dollar are rare, and should not be ignored. In short, dollar optimism has been pushed to an extreme by this event. Sell your dollars to the dollar bulls, and buy Gold.

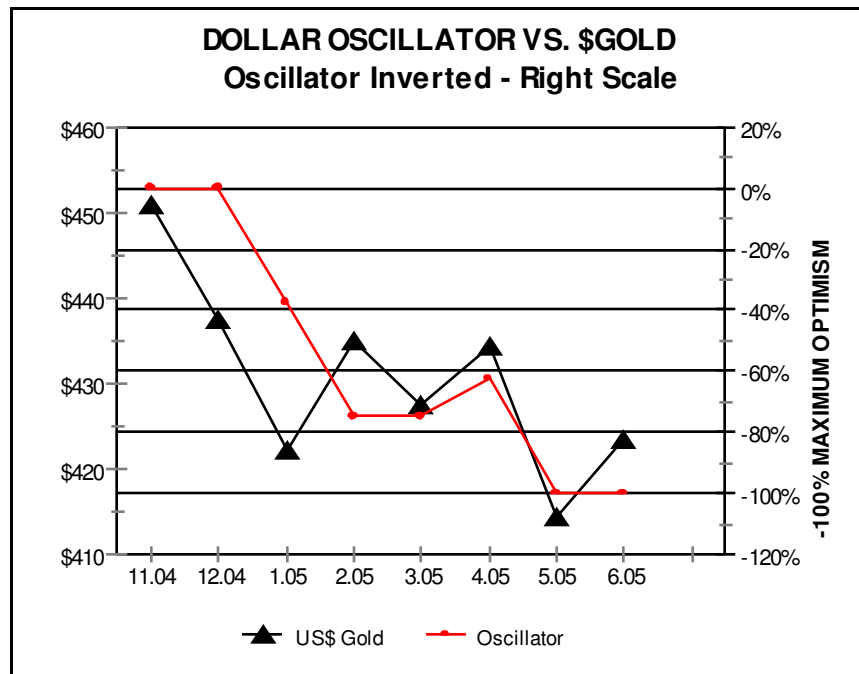
This article, intended as a short one, is not a defense of the EU treaty, but rather a note that the dollar's optimism is over extended. Nor is the idea that the EU's economic fundamentals are ideal put forth. Rather, this writing is simply a reminder that the U.S. is the one that owes the rest of the world about two trillion dollars not the EU. The European Central Bank, the EU's central bank, is not the entity that has engineered two massive speculative bubbles that have destroyed the economic competitiveness of the nation. The Federal Reserve is the central bank that has done that. We should be always selling the currency of the more weakly managed central bank when over optimism provides an opportunity to do so.

The first graph portrays several measures. The triangles are \$Gold, plotted using the left scale. The second is an oscillator of sentiment for the U.S. dollar. This latter measure has been inverted and is plotted on the right hand axis. The oscillator's range is plotted so that zero(0) is maximum pessimism and -100 is maximum optimism. Reason for this method of plotting is so that the lines give a more

easily understood visible picture. The oscillator is a measure of longer term relative sentiment using a stochastic calculation. As it is intended as a longer term measure, short term readings are neither calculated nor available.

As is apparent in the graph, the oscillator reached maximum pessimism in the early part of the graph. At that time, \$Gold was in the \$450 range. About that time the mouse clickers residing at hedge funds decided that the dollar was on the verge of a major bottom. Around the globe, the mouse clickers all fixated on the same graph of the dollar index. The mice all clicked at the same time, declaring a major bottom for the dollar. All that need be said about that is one of the unfailing technical rules is that all popular support and resistance levels are taken out. That overly popular bottom in the \$ index will fall to this rule too.

First Graph



The dollar has now reached, as shown in the first graph, an extreme level of optimism. \$Gold has moved down from the \$450 level to about \$415, and started to bounce as a result of the extreme level of emotions. That the dollar has reached such a level of optimism and that \$Gold is now turning suggests that dollar handicapped investors should be moving into Gold. Euro denominated investors

should not be moving into Gold.

That all said, part of the motivation for this article is to discuss the vote on the EU treaty and any possible meaning. Such a goal can not be achieved in one short writing. The most vicious emails we have ever received have been a consequence of comments about the French. So be it, for if one is too be criticized that criticism might as well come from someone in an insignificant province of the EU. In short, the French no vote on the EU treaty was largely a vote by the spoiled brats on the left in that nation. Despite the headlines, only about 39% of French and Danish voters were opposed to the treaty. 61% of the voters in those countries were either in favor of the treaty or felt it so unimportant that they did not vote. That out of the way, we will now be nice to our French readers for the remainders of this article.;

Should the EU treaty be approved? *The Economist*, one of the favorite magazines of Gold bugs, has opposed approval of the treaty. A recent article in that magazine went, “No would be the right answer in the next week’s French and Dutch referendums and a good one for Europe”(Economist,2005,11). The treaty runs from 200-300 pages, depending on the language and printing and the source. Any referendum that long put to the voters should probably be rejected. Would the U.S. or Canada vote to approve a new 200 page constitution for their country?

Is the EU destined for collapse? The answer would have to be no. Formation of a new “nation”, if that is what the EU is to be, takes time and pain. For a good history lesson, read of the writing of the U.S. Declaration of Independence. Had one opponent, a true gentleman in all the meanings of the word, not left the room during the vote, it might have not been approved. The Articles of Confederation was a non starter even as the ink dried. Any reading of the local news of that era would have suggested that the U.S. was bound to collapse. Imagine the wisdom and results of shorting the U.S. in 1799.

The popular press keeps being misled by a few ostriches which teach economics in modern academia. A recent *Business Week* article “Squeezed by the Euro” is a good example, 2 June issue, One of their delusions is called Optimal Currency Area(OCA) theory. Do not waste any time reading articles on the matter. In short, the theory says that only those people with perfect correlation of their economic activities should have the same currency. Applied strictly to the U.S., the nation would

still have a minimum of 13 currencies. Good idea?

Applied to Europe, the theory says that the Euro should not have been introduced until all and every possible improvements in the laws, regulations, labor relations, and cultural differences in Europe had been achieved. Canada and the U.S., under the application of their thinking, would still be waiting for one common currency for their nations. Good idea?

The critics of the Euro essentially say that everything should have been made perfect, like their graphical delusions on the blackboard, before the Euro was introduced. Perfection is only possible by one entity, and certainly politicians, economists and labor leaders in Europe are not that entity. The Euro was introduced before economic perfection, and there lies the rub.

The EU is primarily a monetary union. The new EU constitution was a move toward political unity. Clearly, the citizens of part of Europe are not ready for the latter. That decision is understandable. That France is not ready to accept being a province of the EU rather than an independent nation is a view that can be appreciated. Political unity, and submission to that unity, takes time. The EU's new treaty was too much too soon.

The Euro has removed a crutch from the economic policies of many European provinces. Currency depreciation is no longer possible. Fundamental change must come in Europe as a result of the EU, and many voters do not like it. France, with the second highest tax burden in the EU, can not achieve economic growth without cutting taxes. Cutting taxes means that some one with a soft job and early retirement will now have to really work. Scarey thought for some voters.

Change will come to France just as it has come to workers and firms in the U.S. Companies no longer competitive on a world scale will fail, and the jobs will disappear. Survival of the fittest is a rule of the global market place, and is the source of long term prosperity for the greatest number of individuals. Frits Bolkestein summed it up best, "Before the euro it [Italy] could compensate for the loss [of competitiveness] by devaluing from time to time. It now faces the need for adjustment in the real economy, which is painful" (Bolkestein, 2005, 17). Some voters are unhappy that currency devaluation is no longer available, but to investors that is good news.

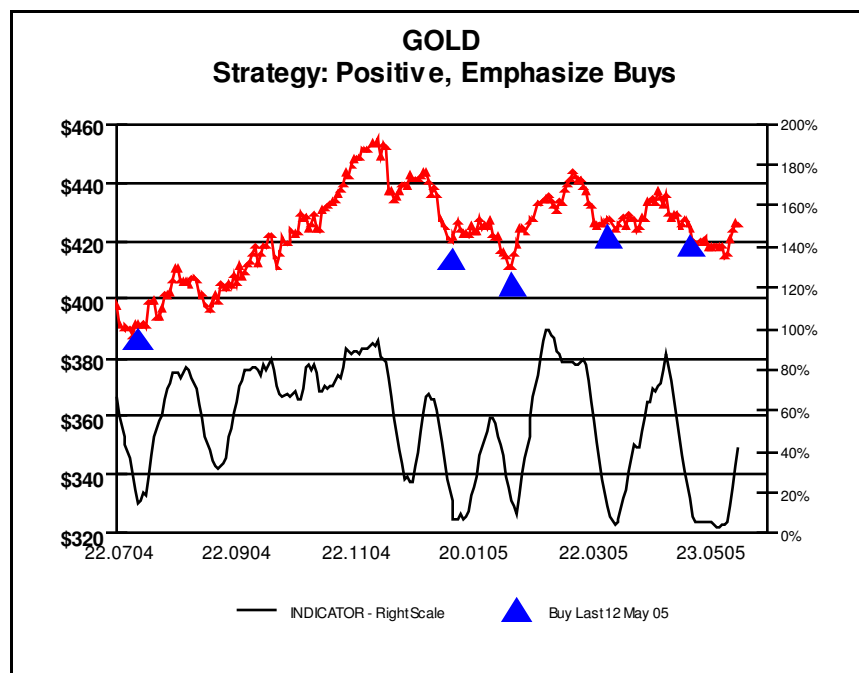
The Euro is now the largest national money brand in the world. Nations have been pushing to join. Their citizens already use the Euro in their daily lives. Russia is likely to move to the Euro, and may some day price Russian oil in Euros rather dollars. **What nations are lining up to join the dollar?** Answer is none. Are Chavez and Lopez likely to push their nations to drop their national monies and convert to the dollar?

This article was intended as a short one, and it will be. These matter will be explored more in the monthly letter. The failure of the current EU treaty means that political unity in the EU is not imminent, and that it will be a demographic rather than democratic process. Monetary union will remain. The EU treaty vote pushed dollar optimism to a extreme. As shown in the last chart, such times are excellent buying opportunity for Gold investors. That said, \$Gold is short-term overbought. **Use any price corrections to add to positions. One must be on the train to arrive at the \$1,300 station!**

REFERENCES:

A song for Europe. (2005, May 28), *The Economist*,11-12.

Bolkestein, Frits. France's verdict tells us that Europe has been oversold.(2005,May 31), *The Financial Times*,17.



Ned W. Schmidt, CFA, CEBS is publisher of ***THE VALUE VIEW GOLD REPORT***. That report now includes a weekly message, ***TRADING THOUGHTS***, to help investors identify timely points for buying Gold and Silver. You can join him for the Gold Super Cycle at [http://home.att.net/~nwschmidt/Order\\_Gold\\_EMonthlyTT.html](http://home.att.net/~nwschmidt/Order_Gold_EMonthlyTT.html) His monumental report, “**\$1,265 GOLD**”, which has now been read in 12 countries, has 255 pages and 98 graphs, is available at [www.amazon.com](http://www.amazon.com) or from the author. Ned welcomes your comments and questions. His mission in life is to rescue investors from the abyss of financial assets and the coming collapse of the U.S. dollar. He can be contacted at [nwschmidt@earthlink.net](mailto:nwschmidt@earthlink.net).

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