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An Old Day's Ending. A New Day's Beginning…

A Monday Morning Musing from Mickey the Mercenary Geologist

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"It was a new day yesterday, but it's an old day now." Ian Anderson of Jethro Tull, 1969.

2008 was some Jekyll and Hyde year, huh? It included near all-time Dow Jones and S&P 500 highs and arguably the greatest economic collapse in 100 years. Note that I said *100 years*. I could not say *101 years* because that would imply it was bigger than the Panic of 1907 and that, at this juncture, is pure conjecture. We can read Jesse Livermore to get insight into the depths of that depression.

But that was simply part of a natural capitalistic cycle as predicted by Austrian economic theory. The biggest difference between the 1907 collapse and the ten year long Great Depression, the recession of 1973-74, and the recession of 1981-1982 is what happened at *Jekyll* Island in 1910. Yes folks, after much cajoling, arm twisting, quid pro quo, and who knows what more, the Federal Reserve was created in 1913 and the bankers and their fiat currency ruled the US of A.

I hate to be so blunt but: Big banks are our feudal lords and we the masses are their serfs. Is it irony or coincidence that the president-elect of these United States of America presently lives in *Hyde* Park, Illinois?…hmm… food for thought, sports fans. Talk amongst yourselves…

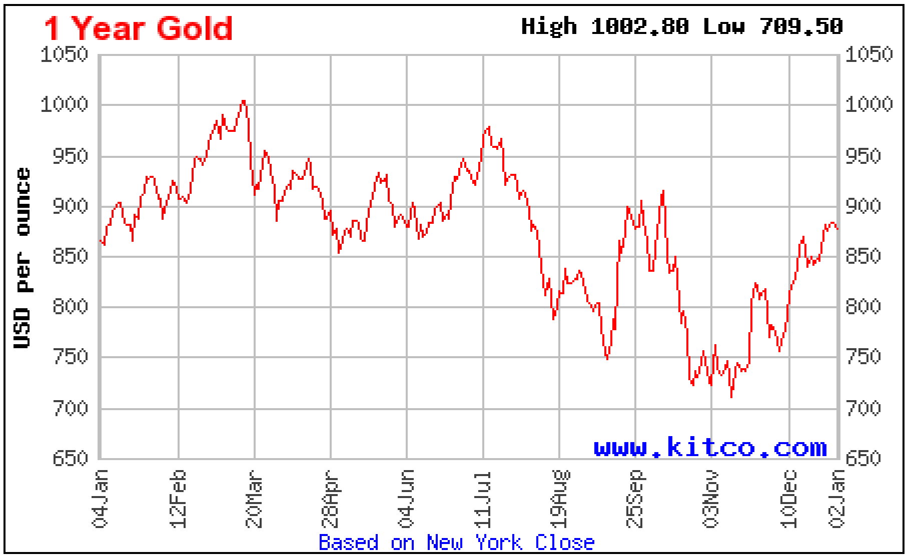
Besides the tumultuous market, my own career took a 90 degree turn in April, though it was still beaten by the 180 degree market turn by an equal margin. At times my new career angle seems like a big change and at other times not so much. But I've gone and done something that I said I would never do. I now write a newsletter. Wow, who wudda thunk???

When I launched my website on April 21, I stated emphatically that I would never write a newsletter (Introduction). But I am a capitalist so I do what the market demands.

And I do know one thing, writing takes up a lot of my time. Ask my friend and fellow geologist-analyst Brent Cook who launched his newsletter about the same time as mine: How many times will we commensurate about that topic?

I cannot imagine how someone like Jon Nadler can be so prolific; he writes 7-10 times a week for Kitco. I average 2-3 times a *month*. Jon, who lives up the road about 70 miles from me in Eldorado, New Mexico (*El Dorado*, literally in Spanish: The Golden Man), was the guru of gold in 2008. Jon's New Year's Eve

2007 predictions of highs and lows for the 2008 price of gold were $940 and $640; not bad with the actual New York high-low close of $1003 and $710. Does anyone out there know anyone who did better?



You all saw the Hitler parody: Jon Nadler was right. But who else would you expect to be right about gold? After all, he is *the* senior gold analyst for *the* monopoly gold website on *the* planet.

His 2009 prediction this morning was for a range of $630-$980 an ounce, with a caveat of deflation or geopolitics adding an extra $100 on either side, continued volatility, and an average price of $810. Gold producers will be happy with that average if it indeed comes true.

According to fellow paleoconservative Peter Brimelow in his annual Top Ten Worst Performers, the old school, perma-bull, gold bug newsletter writers returned three of the top five ugliest returns on investment in 2008: Ruff 5th at -65.3%, Dines 4th at -72.1%, and Schultz 2nd at -75.3%. Ouch!

Junior resource stocks are trading at an average of 28% of their values a year ago. Look at the one year chart for the TSX.V index if you think I be blowin' smoke where the sun don't shine:

All, except for a few rare birds have been brutalized: Young, old, boisterous, decrepit, the good, the bad, and the ugly, the winners and the losers, the promotions and the scams, the few, the proud, the Mar… *no they aren't included*…but you name it, the story stays the same.

This sector has not looked as bleak since the dead days from January 2000-January 2002 when gold traded at less than $300 per ounce except for about one whole week:

But this time, there is one thing that is completely different:

Gold is the only commodity and arguably the only financial instrument that has retained some semblance of its pre-economic collapse value and will continue to do so in the near future. Overall, industrial metal commodities have lost an average of 43% year-to year; even combo metal silver is down 23%; gold is up 6%.

It has given up approximately 12% of its all time high NY close of $1003 on March 17, 2008. Meanwhile the buying power of your dollar has gone down about 8% during this time if, like me, you ignore government propaganda in favor of Walter John Williams' *Shadow Government Statistics*. Gold finishes the year up 6% from its close a year ago. Therefore, it has lost 2% of its USA buying power year to year. Nothing else comes close.

Okay, I know the yen is absurdly strong, up 21% on the dollar year-to-year and the dollar gained strength in early-mid Q4 as worldwide deleveraging and safe haven status created demand; but those bullish appearances must be put into the context of all worldwide fiat currencies. The paper scripts presently viewed as strong by the financial community are relative to their fellow monopoly monies.

Because every major world economy is choosing to bury its toxic derivative bank waste under a veritable mountain of paper notes, all fiat currencies in the world are poised on the edge of this mountainous precipice looking down at the looming abyss of hyper-inflation.

That's not good for much but it is *goddam good for gold*.

But enough, you and I both say, of yesterday; that's an old day now. Let's look at today and the days to come…

Mickey Fulp, the Mercenary Geologist, is a gold bull for 2009. Gold's performance in a deflationary economy is not well defined by depressions in the recent past; its dollar price was fixed during those events of the 20th Century. However, I am of the camp that the current deflation will give way to rampant inflation in the coming months. At some point all those fresh new bundles of $100 greenbacks, both for domestic bailouts and for export to monetize debt, must result in depreciation of dollar buying power.

Notice I said a *gold bull*; I did not say a *gold bug*. I am not a gold bug, never have been, never will be: $1500…$2000 gold…$5000 gold? *En sus suenos,* gold geeks.

I waited for exactly half my life since hearing "The Original Gold Bug" predict $1000 gold at a conference in early 1980. It finally traded at this level 28 years later...*for three days*.

I also haven't seen any pigs in the air lately… Have you??

My first 11 gold specimens were purchased in early September 1979 when gold was trading at $329 an ounce. They were bought from a guy in a rock shop in Santa Fe, New Mexico who was quite eager to turn them over quickly. The story offered was they had come out of the famous 16 stope at the Sunnyside mine near Silverton, Colorado in a miner's lunch pail, presumably before the big flood. Needless to say but I will anyway, the price was at a considerable discount to the gold content: $10 a piece! I have continued to buy gold since, generally on weakness and often during the summer doldrums when yearly lows tend to occur.

I allocate 10-20% of my net assets to physical gold with some silver thrown in for good measure. In my opinion, gold should be a hedge in your asset portfolio for times of uncertainty and calamity. Like right about now...

Aforementioned Kitco gold analyst Jon Nadler shares my philosophy. You should listen to Jon Nadler. He's been there and done that: Ask him sometime of his journey as a youth from Hungary to the USA.

Gold as a store of wealth will perform well in the coming inflationary environment. The $64,000 question is: Will gold stocks perform equally as well?

Jeez, I remember back when $64,000 was a lot of money…I paid $69,500 for my adobe house, three outbuildings, 2.4 acres of irrigated pasture land, and 7.2 acre feet of water rights in 1984…It really doesn't seem like all that much money now, does it?

But that's what a fiat currency is determined, designed, and destined to do: Keep the *faithful* middle class serfs *believing* (as you know I really hate that verbword) that they are getting ahead by accumulating more paper wealth when their buying power forever is decreasing.

Mark Twain said: "*Faith is believing what you know ain't so.*"

And after that digressive diatribe, the answer to the previous question is: I do not know.

But my gut feeling is *No*: Most junior gold stocks will not perform well in 2009 and the sector as a whole will not give positive across the board returns for the year.

Way back in late June, I wrote this (Mercenary Musings on the Market): *In my current thinking, I do not expect the junior resource market to improve substantially until the first quarter of 2009 and then only for the strongest companies.*

That's my story and I'm stickin' to it.

The beauty of the junior stock market is leverage on movements in the prices of natural resources. The market is much more volatile and subject to rapid price swings than the underlying commodities, especially gold. That's why we can consistently have short term two baggers and the occasional five and ten baggers, both on the upside and the downside.

Show me an *active* junior resource stock that does not have at least a double in its 52 week high/low chart for any given year and I'll show you a poorly run company with management lacking in marketing skills.

In my opinion, there will be some big winners in this sector in 2009.

Junior companies that are generating positive cash flow with gold ± silver production, those with advanced projects and proven economics (i.e., they have reserves in the ground), and those with robust deposits that are takeover or merger targets will outperform the overall market in the coming year.

So the question becomes: How do we pick the scattered winners amongst the vast majority of potential losers in 2009?

As I wrote little more than two weeks ago, it takes thorough due diligence and careful evaluation.

If your idea of picking stocks is analogous to throwing darts in the bar, the weekly office football pool, or some touchy-feely new age mental thought pattern to get in touch with your inner emotions, then just quit reading and go do one of those things instead.

It takes hard work to consistently win long in a bear market.

Folks, we are on the brink of an economic depression of such a magnitude that the only souls who can remember a similar time have been on fixed incomes for over a decade.

Fortunes have been lost and will continue to be as this economic turmoil plays out; but likewise, fortunes will be made in the coming years. There are unique buying opportunities in the junior resource sector; it's a matter of finding the right gold stocks and buying them at the right time.

Be like me, do your difficult due dili, and let's see if we can be among those that jump start those future fortunes in 2009.

Ciao for now,

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The **Mercenary Geologist Michael S. "Mickey" Fulp** is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 30 years experience as an exploration geologist searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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