So far, 2012 has been a banner year for the stock market, which recently closed the books on its best first quarter in 14 years. But Casey Research Chairman Doug Casey insists that time is running out on the ticking time bombs. Next week when Casey Research's spring summit gets underway, Casey will open the first general session addressing the question of whether the inevitable is now imminent. In another exclusive interview with The Gold Report, Casey tells us that he foresees extreme volatility “as the titanic forces of inflation and deflation fight with each other” and a forced shift to speculation to either protect or build wealth.

Source: JT Long of The Gold Report

The Gold Report: You told us about two ticking time bombs last September—the trillions of dollars owned outside the U.S. that could be dumped if the holders lose confidence and the trillions of dollars in the U.S. created to paper over the 2008 liquidity crisis. It's been six months since then. Have we averted the disaster or are we closer than ever?

Doug Casey: Things are worse now. The way I see it, what's going to happen is inevitable; it's just a question of when. We're rapidly approaching that moment. I suspect it will start in Europe, because so many European governments are bankrupt; Greece isn't an exception, it's the norm. So we have bankrupt governments trying to bail out the European banks, which are bankrupt because they've loaned money to the bankrupt governments. It's actually rather funny, in a perverse way. . .

If it were just the banks and the governments, I wouldn't care; they're just getting what they deserve. The problem is that many prudent middle class people are going to be wiped out. These folks have tried to produce more than they consume for their whole lives and save the difference. But their savings are almost all in government currencies, and those currencies are held in banks. However, the banks are unable to give back all the euros that these people have entrusted to them. It's a very serious thing. So European governments are trying to solve this by creating more euros. Eventually the euro is going to reach its intrinsic value—which is nothing. It's the same in the U.S. The banks are bankrupt, the government's bankrupt and creating more dollars so the banks don't go bust and depositors don't lose their money.

I'm of the opinion that if it doesn't blow up this year, the situation is certainly going to blow up next year. We're very close to the edge of the precipice.

TGR: Is the problem the debt, or all of the currency that has been pumped in?

DC: It's both. We have to really consider what debt is. It's the opposite of savings because savings means that you've produced more than you've consumed and put the difference aside. That's how you build capital. That's how you grow in wealth. On the other side of the balance sheet is debt, which means you've consumed more
than you've produced. You've mortgaged the future or you're living out of past capital that somebody else produced. The existence of debt is a very bad thing.

In a classical banking system, loans are made only against 100% security and only on a short-term basis. And only from savings accounts that earn interest, not from money in checking accounts or demand deposits, where the depositor (at least theoretically) pays the banker for safe storage of his funds. These are very important distinctions, but they've been completely lost. The entire banking system today is totally corrupt. It's worse than that. Central banking has taken what was an occasional local problem, a bank failing from fraud or mismanagement, and elevated it to a national level by allowing fractional banking reserves and by creating currency for bailouts. Debt—at least consumer debt—is a bad thing; it's typically a sign that you're living above your means. But inflation of the currency is even worse in its consequences, because it can overturn the whole basis of society and destroy the middle class.

**TGR:** What happens when these time bombs go off?

**DC:** There are two possibilities. One is that the central banks and the governments stop creating enough currency units to bail out their banks. That could lead to a catastrophic deflation and banks going bankrupt wholesale. When consumer and business loans can't be repaid, the bank goes bust. The money created by those banks out of nothing, through fractional reserve banking, literally disappears. The dollars die and go to money heaven; the deposits that people put in there can't be redeemed.

The other possibility is an eventual hyperinflation. Here the central bank steps in and gives the banks new currency units to pay off depositors. It's just a question of which one happens. Or we can have both in sequence. If there's a catastrophic deflation, the government will get scared, and feel the need to "do something." And it will need money, because tax revenues will collapse at exactly the time its expenditures are skyrocketing—so it prints up more, which brings on a hyperinflation.

We could also see deflation in some areas of the economy and inflation in others. For example, the price of beans and rice may fall, relatively speaking, during a boom because everybody's eating steak and caviar. Then during a subsequent depression, people need more calories for fewer dollars, so prices for caviar and steak drop but beans and rice become more expensive because everybody is eating more of them.

Inflation creates all kinds of distortions in the economy and misallocations of capital. When there's a real demand for filet mignon, there's a lot of investment in the filet mignon industry and not enough in the beans and rice industry because nobody is eating them. And vice-versa. And it happens all over the economy, in every area.

**TGR:** But inflation rates don't seem to reflect the vast amounts of currency that central banks have injected into the U.S., European and other economies. The U.S. inflation rate was 2.93% in January and 2.87% in February. We haven't seen signs yet either of a hyperinflation or a serious deflation that we were warned would come with quantitative easing (QE). Does that mean QE is working after all?

**DC:** No. It's not just the immediate and direct consequences of what they do—everybody loves it when trillions of dollars are created. It feels good to have lots more purchasing media. The problem arises with the indirect and delayed
consequences. All these dollars and euros—and Chinese yuan and Japanese yen—that have been created have basically gone into the banks, but the banks are not lending them out. The banks are afraid to lend and a lot of people don't want to borrow because they're afraid of taking on more debt. So the dollars that have been created, mostly invested in government paper, sit on the banks' balance sheets. They are not circulating in the economy at the moment. That's why prices aren't skyrocketing right now.

That's point number two, though. Point number one is that I wouldn't trust those inflation figures in the first place. The governments of Western Europe and the U.S. fudge inflation figures as certainly as the Argentine government fudges them, just less overtly and outrageously. They do that because they want to keep the perception of inflation down; they don't want people panicking, which is a pity, because the public should urgently do something to protect their capital. They also don't want to see Social Security payments and other payments that are tied to the consumer price index go up. They don't have the tax revenues to pay for them and will have to print even more money, which just exacerbates the problem. Official inflation numbers are unreliable; only somebody very naïve—like a TV anchorperson—could possibly believe them.

If you think of inflation as an increase in the money supply above the increase in real wealth—which is actually what the word means—the inflation rate is actually quite high at the moment. Real wealth is being created at lower rates than it historically has been, while the money supply is increasing tremendously. It's just a question of when that inflation rate manifests itself on a retail level. You've got to think like a real economist, not a political hack like Joseph Stiglitz or Paul Krugman. You have to see not just the immediate and direct consequences of something, but the indirect and delayed ones.

**TGR:** Given that this is an election year in the U.S., won't the government do everything possible to maintain a stable market and stop inflation?

**DC:** Sure, the government wants things stable. I have no doubt it is trying to keep the stock market up. It wants the stock market to stay high because pension funds and insurance companies and the public at large are invested in the stock market. It wants interest rates low, although artificially low interest rates are an economic disaster in that they encourage people to borrow more and save less. It would prefer to see precious metals, and all other commodities, at low levels. The argument is made that the governments of the world, especially the U.S. government, are manipulating the prices of gold and silver to keep them down, because when they increase, it's like financial alarm bells going off.

But they can't control the prices of the precious metals. In the real world, cause has effect. When you create trillions of currency units, eventually the price of those currency units relative to other things will go down. That's called inflation. Whether he's lying or he really believes it, Fed Chairman Ben Bernanke said he can control the levels of inflation. When it gets too high, he thinks he can rein it in somehow.

The current world monetary system is going to come undone. That's my prediction, and I'm betting on it massively, personally.

**TGR:** You've talked about the possibility of abandoning paper currency altogether and going to a digital system.

**DC:** The most important thing is to get the government out of money. There should
be a high wall between the state and religion and an equally high wall between the state and the economy. I don't even like to talk about what governments "should" do as far as money is concerned because the governments shouldn't be involved in money—period. Money is a medium of exchange and a store of value. It shouldn't be a political football, nor should it be used as an indirect form of taxation, which is what inflation is. It should be a pure, 100% market phenomenon. Central banks should, therefore, be abolished. Paper currency should cease to exist—except as a receipt for money held on deposit. Historically, that's how it originated.

You could use any kind of commodity as money, but gold has proven since the dawn of civilization to be uniquely well suited for use as money. It's a market, which is to say a voluntary, phenomenon. Whether you represent that gold with bank notes printed by individual banks or by digital currency—which I'm sure the world is going to—makes no difference. But having the state in charge of currency is idiotic.

TGR: You've written about China moving away from the dollar. Do you see that happening gradually or all of a sudden? And would it be in favor of its own currency or more investment in gold? What impact would that have on gold prices?

DC: First of all, I think the nation-state as a form of organization is on its way out, and that a 100 years from now people will look back at countries like China and the U.S. the way we look back at medieval kingdoms today. In the meantime, the dollar is important because it's the numéraire for trade all over the world. At the same time, fewer and fewer people trust it, and they increasingly realize that it's the unbacked liability of a bankrupt government.

Eventually, it's going to be replaced by something else. India and Iran are trading between each other using gold and oil. Why use a piece of paper issued by a hostile and unreliable third party? The Russians and the Chinese can see how crazy it is to trade between each other using dollars, which all have to clear in New York. But people are still accustomed to using currencies issued by nation-states, and the U.S. dollar is everywhere and is therefore convenient. But it's a hot potato. People no longer trust it. I suspect the Chinese yuan will replace the dollar gradually—assuming the Chinese don't destroy the yuan as well. They're also creating trillions of the things to keep the economic bubble in China from imploding.

Before the Chinese yuan can replace the dollar, people must have confidence in it. The best way they can gain confidence in it is if the volume of yuan is limited and redeemable by the issuer in something real, something tangible. That's going to be gold. So I expect China will continue buying large amounts of gold to back its currency. China is already the world's largest gold producer. Considering that only about 6–7 billion ounces of gold have ever been mined in all the world's history, China alone could drive the price of gold much higher.

TGR: At your Recovery Reality Check summit in Florida April 27–29, you'll be talking about how business cycles have been turned on their heads. Is this the time for investors to sit tight, making only small adjustments to portfolios, or must they take more drastic action to protect their wealth or, better yet, profit from volatility?

DC: I think volatility is going to go way up in the future as the titanic forces of inflation and deflation fight with each other. This is a very poor time to make big bets in almost any conventional market because it's impossible to tell how things will finally settle, where the next major war will be and so forth. Stock markets around the world are not cheap now and bond markets are fantastically overpriced. Currencies are no more than floating abstractions. Commodities have been in a
long bull market, so they're no longer a low-risk bet. Real estate—the most obvious thing for bankrupt governments to tax—is dangerous. In the developed world—especially in the U.S.—it floats on a sea of debt, which has driven it to artificially high levels. It's coming down as we speak, but it's nowhere near a bottom.

So there are very few places where people can still attempt to preserve capital. Everybody is going to be almost forced to be a speculator to try to stay in the same place. Speculating means capitalizing on politically caused distortions in the marketplace. That's the proper definition of the word.

TGR: What can people speculate on?

DC: Unfortunately, they have to second-guess where the money will go. I've always liked resource stocks, especially resource exploration stocks. It's a tiny market. If a fire gets lit under gold and silver, and I think it will, companies in this nanosector could explode 10, 20 or 50 times upward in price. It's happened many times in the past. Right now, these stocks are relatively cheap, so I like that as a speculative vehicle.

TGR: Rick Rule has cautioned against generalizing about the entire junior mining sector as a whole, because so many of these companies don't find anything. How do you decide which resource investments are worth looking into? Are there criteria? Is there some kind of a litmus test that you use?

DC: Rick is absolutely correct about that. Although the sector is capable of going upwards 10 or 20 times as a whole, most of the stocks in it are total garbage. The only gold, uranium, silver or whatever appears on their stock certificates, not in the ground they control. There are thousands of these little stocks, and yes, we have criteria we use to evaluate them. We use a tried-and-true due diligence process we call *The Eight Ps of Resource Stock Evaluation* to separate the wheat from the chaff among speculative investment opportunities.

TGR: Would you share that with us?

DC: Sure. This is a guide to help investors ask the right questions about every individual company they're considering. This list comprehends the essential, but you could write a book about each of these eight points.

- **People:** Who are the key players in the company and what are the track records of the companies they've managed? This is by far the most important criteria.

- **Property:** What resources are in hand, and what (if any) are the additional resources they expect to find? How well proven are they? Assessing this takes geological and engineering expertise.

- **Phinancing:** Does the company have enough cash to meet its next-phase objectives or have the ability to finance the cost of reaching those objectives? It's no longer a case of grubstaking a prospector and his mule.

- **Paper:** Capital is almost always raised from the issuance of new shares. Is there a lot of cheap paper out there that will keep the share price down? Will new or existing warrants or new shares dilute your own shares? Who owns most of the paper?
• **Promotion:** How and when is the company going to get itself (and its stock) noticed?

• **Politics:** Is the country or region mine friendly and stable? Are foreign investors welcome? Is there environmental resistance?

• **Push:** What's going to move this stock? Drill results, merger or acquisition, increase in the price of the underlying commodity, resolution of a legal issue?

• **Price:** What are the potential price moves of the underlying commodity that could have either a positive or negative impact on the value of the company?

**TGR:** How hard is it to find a company that passes muster on all eight counts?

**DC:** It's very hard. It's hard enough to look at the basic statistics of thousands of companies. Then you look at the people behind them. Generally, we try to find the people first. We stay away from those who have no history of success and have established that they have questionable characters. We look for people with long histories of success or appear to be about to embark on a lifetime of success. The most important piece is people. That's what we really look for most of all.

**TGR:** Based on all the calamities that could occur, how will you adjust your investing philosophy?

**DC:** Let me put it this way. We're going into something that I call The Greater Depression, much worse and much different than what happened in the 1930s. I think my friend Richard Russell said it best: "In a depression, everybody loses. The winner is the guy who loses the least." It's very tough to keep capital together today, much less make it grow in the years to come.

But I think it's possible. The thing to remember is that most of the world's real wealth will remain in existence regardless of what happens. The key is to position yourself so that more of it falls into your hands as opposed to falling out of your hands. That's what we're trying to do, to increase our relative share of the wealth in the world. We're not looking at boom times. What's coming will be the opposite of what we experienced during the artificial inflationary boom of the 1990s, where everything was going up—stocks, real estate and so forth. This is a time when, in real terms, most things will lose value. Most people will experience a real decline in their standard of living.

**TGR:** As we've discussed, at its root, paper currency is a substitute for something of value. Energy, similar to gold, has intrinsic value. It's always in demand. In the past, you've expressed optimism about uranium, natural gas and oil. As the dollar becomes suspect, do you foresee sources of energy becoming more valuable?

**DC:** Absolutely. I'm very bullish on oil. The world runs on fossil fuels today because they're ideal sources of highly concentrated energy. Unfortunately, all of the easily available, cheap fossil fuels have basically been found. The low-hanging fruit is gone. This is what the peak oil theory is about. Plenty of oil remains, but it's going to be more expensive to get it. To find oil now requires going to exotic places without infrastructure and with big political problems. It requires going much deeper into the ground, exploring under the ocean, using new technologies, and so forth.

Gas is secondary to oil when it comes to concentrated sources of energy. Of course, with the development of new technologies, primarily horizontal drilling and new
fracking techniques, a huge amount of natural gas has become available all over the world. But it takes tremendous capital to retrieve it, and it also faces political problems.

But in summary, I'm bullish on energy of all types. There is plenty of fuel out there. It's just a question of the price level, so it becomes economic to retrieve it.

**TGR:** So how do you invest in finding the rest of what's out there?

**DC:** You look for companies that are exploring for it. One of the important things that makes me very bullish on oil is that most of the oil in the world today—something like 80%—is not owned and produced by BP Plc (BP:NYSE; BP:LSE), Exxon Mobil Corp. (XOM:NYSE), Royal Dutch Shell Plc (RDS.A:NYSE; RDS.B:NYSE) and companies like that. It's mostly owned and produced by national oil companies such as those in Mexico, Iran, Saudi Arabia and Venezuela. These state oil companies are universally corrupt and inefficient. The profits from the oil are generally used as piggybanks by those governments, not to build capital and find more oil. Furthermore, where governments allow private exploration, such as Iraq, they take about 80–90% of the potential profits from oil, which of course discourages exploration and exploitation of the resource. The problems are almost entirely political, but they're big problems.

**TGR:** Speaking of the politics of energy, are you still bullish on uranium in light of the politics of what's gone on since the Fukushima meltdown?

**DC:** Yes. I've said it before and continue to say it. There's no question that nuclear power is by far the safest, cleanest and cheapest type of mass power generation available. Fukushima survived one of the most severe earthquakes in recorded history with no problem; it's just a pity they didn't adequately plan for a 45-foot tidal wave on top of it. In addition, those plants basically were 50-year-old technology. If it weren't for political obstructions, we'd be using vastly improved technology. But it's not just uranium. Thorium is actually a much better fuel from many points of view and probably would have been used as a fuel instead of uranium except that the governments of the world found uranium useful for nuclear weapons as well as nuclear power.

Nuclear power is definitely the answer, but as you point out, it's a question of political problems. Across the resource industry, in fact, it's all politics. When you find a gigantic resource of some type, you can count on lawsuits, not-in-my-backyard opposition and political theft. Those are among the reasons that I don't see the resource industry as a place to make investments. It's only a place where you can speculate.

**TGR:** So what should long-term investors do to protect themselves?

**DC:** Because the big problems in the world today all are political, the critical thing is to diversify politically and internationally. You can't have all your assets under the control of one government or in one country. Then, of course, you have to find the right place to put the money within that framework.

**TGR:** How do you do that?

**DC:** I can write a book on that.

**TGR:** Or stage a summit? You have quite a faculty lined up.
DC: It is an impressive group. Actually, this summit has dual overarching purposes. As we've discussed, the massive amounts of money the world's governments have unleashed in their economies have lit a small fire of recovery. We're going to talk a lot about whether the world is truly on a path to recovery or whether investors wouldn't be wise to develop and implement Plan B now, given that the extreme levels of debt that were such a major factor in creating the current crisis have not been reduced. To me, that strongly suggests that this so-called recovery is unsustainable and calls for moving into Plan B. Part of Plan B involves identifying optimal investment strategies for the markets ahead.

TGR: What sorts of takeaways are in store for people who attend?

DC: Let's have David Galland, who's been instrumental in preparing for this summit, respond to that. (A senior market strategist, Galland is managing director of Casey Research LLC, managing editor of The Casey Report, International Speculator and Casey Investment Alert and author of Casey's Daily Dispatch.)

David Galland: We expect the takeaways will be good answers to many burning questions. As Doug has suggested, the government says the recovery is real and your broker will tell you it is, yet the underlying data suggests that it may be a paper tiger. So, what's the hard truth? Should you be moving aggressively into rebounding equities? Or is the recovery a mirage that will dissipate in a second crushing leg down for the economy and traditional investment markets? What are the road signs you need to pay close attention to? How can you position your portfolio to do well in either scenario and, most importantly, to hedge against the worst case? Should you worry about inflation or deflation? Neither? Or both? Will the gold and silver you've been holding turn to lead and pull your portfolio down? Or is loading up on corrections still the right thing to do?

TGR: These summits are always sold-out affairs. Is this one full already?

DG: Just a few spots remain as we speak.

Even if you can't make it to the Casey Research Recovery Reality Check Summit April 27-29, you can still listen to every piece of actionable investment advice attendees will hear with the Summit Audio Collection. This expansive audio set will feature every recorded Summit presentation, including those from David Stockman, director of the Office of Management and Budget under President Reagan . . . Harry Dent, author of The Great Crash Ahead . . . Casey Research Chairman Doug Casey . . . and 28 other financial luminaries. Pre-order before the Summit starts and get the entire collection for $100 off.

Doug Casey, chairman of Casey Research LLC, is the international investor personified. He's spent substantial time in more than 175 different countries so far in his lifetime, residing in 12 of them. And Casey's the one who literally wrote the book on crisis investing. In fact, he's done it twice. After The International Man: The Complete Guidebook to the World's Last Frontiers in 1976, he came out with Crisis Investing: Opportunities and Profits in the Coming Great Depression in 1979. His sequel to this groundbreaking book, which anticipated the collapse of the savings-and-loan industry and rewarded readers who followed his recommendations with spectacular returns, came in 1993, with Crisis Investing for the Rest of the Nineties. In between, Casey's Strategic Investing: How to Profit from the Coming Inflationary Depression broke records for the largest advance ever paid for a financial book.

Casey has appeared on NBC News, CNN and National Public Radio. He's been a
guest of David Letterman, Larry King, Merv Griffin, Charlie Rose, Phil Donahue, Regis Philbin and Maury Povich. He’s been featured in periodicals such as Time, Forbes, People, US, Barron’s and the Washington Post—not to mention countless articles he’s written for his own websites, publications and subscribers. Casey Research currently produces 11 publications on a variety of investment sectors and maintains two websites.

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