

# The Number One Black Swan Event of 2017

On August 15, 1971, President Nixon killed the last remnants of the gold standard.

It was one of the most significant events in US history—on par with the 1929 stock market crash, JFK’s assassination, or the 9/11 attacks. Yet most people know nothing about it.

Here’s what happened...

After World War 2, the US had the largest gold reserves in the world, by far. Along with winning the war, this let the US reconstruct the global monetary system around the dollar.

The new system, created at the Bretton Woods Conference in 1944, tied the currencies of virtually every country in the world to the US dollar through a fixed exchange rate. It also tied the US dollar to gold at a fixed rate of \$35 an ounce.

The Bretton Woods system made the US dollar the world’s premier reserve currency. It effectively forced other countries to store dollars for international trade, or to exchange with the US government for gold.

By the late 1960s, the number of dollars circulating had drastically increased relative to the amount of gold backing them. This encouraged foreign countries to exchange their dollars for gold, draining the US gold supply. It dropped from 574 million troy ounces at the end of World War 2 to around 261 million troy ounces in 1971.

To plug the drain, President Nixon “suspended” the dollar’s convertibility into gold on August 15, 1971. This ended the Bretton Woods system and severed the dollar’s last tie to gold.

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## Prices

Gold .....	\$1,140
Silver .....	\$15.98
Oil .....	\$51.28
Rogers Int’l Comdty Index ....	2,294
S&P 500 .....	2,262
Dollar Index .....	103.17
10-Year Yield .....	2.54%
U.S. Federal Debt .....	19.9T

Since then, the dollar has been a pure fiat currency, allowing the Fed to print as many dollars as it pleases.

Nixon's announcement is a perfect example of government duplicity. I highly recommend watching it in this [four-minute video](#).

Of course, Nixon said the suspension was only temporary. That was lie #1. It's still in place 45 years later.

And he claimed the move was necessary to protect Americans from international speculators. That was lie #2. Money printing to finance out-of-control government spending was the real threat.

Nixon also said the suspension would stabilize the dollar. That was lie #3. Even by the government's own rigged statistics, the US dollar has lost over 80% of its purchasing power since 1971.

**Doug Casey:** Inflation is one of the most misused words; few even think about its actual meaning. What is inflation? "Well, that's prices going up." No, it's not. To say that is to confuse cause and effect. Inflation is an increase in the money supply. You inflate when the money supply is increased by more than real wealth increases.

Prices go up as a result. People have forgotten about that. Today, inflation seems to come from out of nowhere, like a freak storm. No cause. Unless it's blamed on the butcher, or the baker, or an evil oil company. Nobody ever thinks it's a central bank—the Fed in the US—that actually creates more money and causes inflation.

You've heard that the Federal Reserve is trying to create a little bit of inflation because, they say, "A little bit of inflation is good." No, even a little bit of inflation is deadly poisonous. For two reasons: It creates the business cycle. And it destroys the value of savings. Saving is the basis of capital creation. People who say that a little inflation is a good thing are dangerous fools.

The death of the Bretton Woods system—which was really the US government defaulting on its promise to back the dollar with gold—had profound geopolitical consequences.

Most critically, it eliminated the main motivation for foreign countries to store large US dollar reserves and to use the US dollar for international trade.

At this point, demand for dollars was set to fall... along with the dollar's purchasing power. So the US government concocted a new arrangement to give foreign countries another compelling reason to hold and use the dollar.

The new arrangement, called the petrodollar system, preserved the dollar's special status as the world's reserve currency. For President Nixon and Secretary of State Henry Kissinger, it was a geopolitical and financial masterstroke.

## From Bretton Woods to the Petrodollar

From 1972 to 1974, the US government made a series of agreements with Saudi Arabia, which created the petrodollar system.

The US handpicked Saudi Arabia because of the kingdom's vast petroleum reserves and its dominant position in OPEC—and because the Saudi royal family was (and is) easily corruptible.

The US also picked Saudi Arabia for geopolitical reasons. During the Yom Kippur War of 1973, OPEC's Arab members started an oil embargo to punish the US for supporting Israel. Oil prices quadrupled, inflation soared, and the stock market crashed.

The US was in a vulnerable position. It needed to neutralize the Arabs' potent Oil Weapon. Turning a hostile Saudi Arabia into an ally was the key. The alliance would also help check Soviet influence in the region.

In essence, the petrodollar system was an agreement that the US would guarantee the House of Saud's survival. In exchange, Saudi Arabia would:

1. Take the Oil Weapon off the table.
2. Use its dominant position in OPEC to ensure that **all oil transactions would only happen in US dollars.**
3. Invest billions of US dollars from oil revenue in US Treasuries. This let the US issue more debt and finance previously unimaginable budget deficits. By 1977, at least 20% of all Treasuries held abroad were in Saudi hands.

Oil is the world's most traded and strategic commodity. If foreign countries need US dollars to trade oil, it creates a very compelling reason to hold large dollar reserves.

For example, if Italy wants to buy oil from Kuwait, it has to purchase US dollars on the foreign exchange market to pay for the oil first.

This creates an artificial market for US dollars. The dollar is just a middleman in countless transactions that have nothing to do with US products or services.

Ultimately, the arrangement boosts the US dollar's purchasing power. It also creates a deeper, more liquid market for the dollar and US Treasuries.

Plus, the US has the unique privilege of buying imports, including oil, with its own currency... which it can print.

It's hard to overstate how much the petrodollar system benefits the US dollar. It's allowed the US government and many Americans to live beyond their means for decades. And it's the reason the media and political elite give the Saudis special treatment.

In short, the petrodollar is the glue that holds the US–Saudi relationship together. But its bond is not permanent.

Bretton Woods lasted 27 years. So far, the petrodollar has lasted 42 years. However, the glue is already starting to lose its stick.

I think we're on the cusp of another paradigm shift in the international financial system, a change at least as fundamental as the end of Bretton Woods in 1971.

As I'll explain in this issue, the relationship between Saudi Arabia and the US hit historic lows in 2016. I only expect it to get worse.

## **The death of the petrodollar system is the number one black swan event for 2017.**

During the 1974 negotiations that created the petrodollar system, the Saudis demanded strict secrecy about their Treasury holdings.

For decades, analysts wondered how much US debt Saudi Arabia actually owned. Now, after 40-plus years, we finally know.

Earlier this year—for the first time ever—the US Treasury revealed the full extent of Saudi Arabia's Treasury holdings and acknowledged the kingdom as one of America's largest foreign creditors.

The US government's willingness to lift the veil of secrecy is a major sign that the petrodollar system is breaking down.

Additionally, the US government has released 28 previously classified pages of the *9/11 Commission Report*, which show Saudi government involvement in the attacks. And earlier this year, Congress passed a law allowing 9/11 victims to sue the Saudi government.

These are major, unprecedented, irreparable blows to the petrodollar arrangement.

Even without these radical changes, the petrodollar could still bite the dust...

The Saudis could decide to sell their oil in Chinese renminbi, euros, IMF SDRs, gold, or many other non-dollar currencies. And they could influence most of OPEC to follow suit.

Or the House of Saud could implode. I think that's inevitable anyway, given the colossal economic and military mistakes it's made recently.

The geopolitical sands of the Middle East are rapidly shifting.

Saudi Arabia's regional position is weakening. Iran, which is notably not part of the petrodollar system, is on the rise. US military interventions are failing. And the emerging BRICS countries are creating potential alternatives to US-dominated economic/security arrangements. This all affects the stability of the petrodollar system.

Right now, the stars are aligning against the Saudi kingdom. This is its most vulnerable moment since its 1932 founding.

In this issue of *Crisis Investing*, we'll dive deep into all of this. And, of course, I'll share how to profit from the monumental changes I anticipate in the international monetary system.

I expect the dollar price of gold and oil to soar when the petrodollar system crumbles in the not-so-distant future. You don't want to find yourself on the wrong side of history when that happens.

Ron Paul called for the end of the petrodollar system in his 2006 speech “The End of Dollar Hegemony”:

The chaos that one day will ensue from our 35-year experiment with worldwide fiat money will require a return to money of real value. We will know that day is approaching when oil-producing countries demand gold, or its equivalent, for their oil rather than dollars or euros. The sooner the better.

Essentially, Paul said that understanding the petrodollar system and the forces affecting it is the best way to predict when the US dollar will collapse.

Paul and I discussed this extensively at a Casey Research conference. He told me he stands by his assessment.



*Nick Giambruno and Ron Paul*

## A Paradigm Shift

Obama pulled out his veto pen 12 times during his presidency.

Congress only overrode him once...

In September, Obama vetoed the Justice Against Sponsors of Terrorism Act (JASTA). The bill would allow 9/11 victims to sue Saudi Arabia in US courts.

With only four months left in office, Obama wasn't worried about the political price of opposing the bill. It was worth protecting Saudi Arabia and the petrodollar system.

Congress didn't see it that way. Those up for reelection couldn't afford to side with Saudi Arabia over US victims. So Congress voted to override Obama's veto, and JASTA became the law of the land.

The Saudis, quite correctly, see this as a huge threat. If they can be sued in US courts, their vast holdings of US Treasuries and other US assets are at risk.

Earlier this year Saudi Foreign Minister Adel al-Jubeir said that "Saudi Arabia would be forced to sell up to \$750 billion in Treasury securities and other assets in the United States before they could be in danger of being frozen by American courts," *The New York Times* reported.

Basically, the Saudi foreign minister was threatening to rip up the petrodollar.

It was a serious threat. But there's also a good chance he was bluffing.

## Donald Trump and the Saudis

Unlike every president since the petrodollar's birth, Donald Trump is openly hostile to Saudi Arabia.

Recently he put this out on Twitter:

Dopey Prince @Alwaleed\_Talal wants to control our U.S. politicians with daddy's money.  
Can't do it when I get elected.

The dopey prince that Trump is referring to is Al-Waleed bin Talal, a prominent member of the Saudi royal family. He's also one of the largest foreign investors in the US economy, particularly in media and financial companies.

The Saudis openly backed Hillary during the election. In fact, they "donated" an estimated \$10 million–\$25 million to the Clinton Foundation, making them the most generous foreign donors.

Besides Hillary Clinton, the single biggest loser from the US presidential election was Saudi Arabia.

The Saudis did not want Donald Trump in the White House. And not because of some bad blood on Twitter. There are real geopolitical issues at stake.

At the moment, Trump seems determined to walk back on US support for the so-called "moderate" rebels in Syria.

The Saudis are furious with the US for not holding up its part of the petrodollar deal. They think the US should have already attacked their regional rivals, Syria and Iran, as part of its commitment to keep the region safe for the monarchy.

Toppling Syrian President Bashar al-Assad is a longstanding Saudi goal. But Trump's win makes that unlikely. That's not good for Saudi Arabia's position in the Middle East, nor its relationship with the US.

This is just one of the ways President Trump will hasten the death of the petrodollar.

The Saudis cannot defend themselves without US help. Their military is a total joke. And no one else would step in if the US didn't. The Russians hate the Saudis. And the Chinese don't want a new job as the Middle East's babysitter/policeman.

So, logically, it looks like the Saudi threat to dump US Treasuries is a bluff. They simply need the US too much.

But the Saudis don't always act rationally...

Otherwise, they wouldn't have invaded Yemen—a disastrous war almost nobody talks about. Nor would they have done many other strategically stupid things in recent years. And by "stupid," I mean exactly that—an unwitting tendency toward self-destruction.

So, the Saudis might *not* be bluffing. In which case, they are quickening their own demise.

My hunch is, if they did dump their Treasuries, the US would suddenly have a pressing need to transform Saudi Arabia's monarchy into a "democracy."

The fact is, the Saudis have stopped buying and started selling Treasuries in recent months. Remember, their Treasury holdings are no longer secret. But they haven't dumped the whole pot.

According to the latest available data, the Saudis went from holding **\$124 billion** worth of Treasuries in January 2016, steadily declining to **\$89 billion** in September 2016. That's a drop of **28%** in less than a year. That's a huge move. I'll be watching this important trend closely.

Either way, the only entity capable of gobbling up that pile of debt is the Federal Reserve. And the only way the Federal Reserve can buy anything is by creating new currency units out of thin air. That, of course, is good for gold.

The truth is, the petrodollar system is in its death throes. It doesn't matter if the Saudis willfully abandon it, or if it crumbles because the kingdom implodes. The end result will be the same.

## **Saudi Arabia, Islam, and Wahhabism**

I loathe quoting a neoconservative historian like Bernard Lewis, but even a broken clock is right twice a day:

Imagine if the Ku Klux Klan or Aryan Nation obtained total control of Texas and had at its disposal all the oil revenues, and used this money to establish a network of well-endowed schools and colleges all over Christendom peddling their particular brand of Christianity.

This is what the Saudis have done with Wahhabism. The oil money has enabled them to spread this fanatical, destructive form of Islam all over the Muslim world and among Muslims in the West. Without oil and the creation of the Saudi kingdom, Wahhabism would have remained a lunatic fringe in a marginal country.

This is actually an apt description of Wahhabism, a particularly virulent and intolerant strain of Sunni Islam most Saudis follow. ISIS, Al Qaeda, the Taliban, and a slew of other extremists also follow this puritanical brand of Islam. That's why Saudi Arabia and ISIS use the same brutal punishments, like beheadings.

Many Wahhabis consider Muslims of any other flavor—like the Shia in Iran, the Alawites in Syria, or non-Wahhabi Sunnis—apostates worthy of death. (Doug Casey shares much more on Islam at the end of this issue.)

In many ways, Saudi Arabia is an institutionalized version of ISIS. There's even a grim joke that Saudi Arabia is simply "an ISIS that made it."

After living in the Middle East for three years, it's clear to me that many people in the region despise everything about Wahhabism. Yet it flourishes in certain Sunni communities, among people who feel they have nowhere else to turn.

It's also widely believed in the Middle East that Western powers deliberately fostered Wahhabism, to a degree, to keep the region weak and divided—and as a weapon against Shia Iran and its allies. That includes Syria and post-Saddam Iraq, which has shifted its allegiance towards Iran.

Thanks to WikiLeaks we know the Saudi and Qatari governments, which are also the two largest foreign donors to the Clinton Foundation, willfully financed ISIS to help topple Bashar al-Assad of Syria. Julian Assange says the email revealing this is the most significant among the Clinton-related emails his group has released.

Here's an excerpt of a recent interview with Assange. I highly recommend watching the [full video here](#).

**Interviewer:** Of course, the consequence of that is that this notorious jihadist group, called ISIL or ISIS, is created largely with money from people who are giving money to the Clinton Foundation?

**Julian Assange:** Yes.

**Interviewer:** That's extraordinary...

With all this in mind, Vladimir Putin opened an unusual conference of Sunni Muslim clerics earlier this year. It took place in Grozny, the capital of Chechnya, a Sunni Muslim region within Russia's southwestern border.

The conference, which included 200 of the top non-Wahhabi Sunni Muslim clerics, issued an extraordinary statement labeling Wahhabism "a dangerous deformation" of Sunni Islam.

These clerics carry serious weight in the Sunni world. The imam of Egypt's al-Azhar mosque, one of the most important Islamic theological centers, was among them. (Egypt is the Arab world's most populous Sunni country.)

Basically, Putin gathered the world's most important non-Wahhabi clerics to "excommunicate" the Saudis from Sunni Islam.

Russia and Saudi Arabia have been enemies for decades. The Russians have never forgiven Saudi Arabia (or the US) for supporting the Afghan mujahedeen that drove the Soviet Army out of Afghanistan. And they haven't forgiven the Saudis for supporting multiple Chechen rebellions.

As far as I know, the British writer Robert Fisk was the only Western journalist to cover this extraordinary conference.

Here's Fisk:

Who are the real representatives of Sunni Muslims if the Saudis are to be shoved aside? And what is the future of Saudi Arabia? Of such questions are revolutions made.

If the Saudis are shoved aside, it could strike a fatal blow to the petrodollar system.

## The Saudis' War on US Shale Oil Has Officially Failed

In the 1990s, the US imported close to 25% of its oil from Saudi Arabia. Today, it only imports 5%. US shale oil is a major reason why.

In late 2014, Saudi Arabia declared war on US shale oil producers.





The Saudis tried to keep the oil market saturated enough to bring prices down, bankrupt competitors, and regain lost market share.

At first it looked like their plan might succeed. The price of oil plunged 75% in less than two years. It was the worst downturn in decades.

Nearly 100 North American oil and gas companies went bankrupt. The entire industry was in crisis.

This was not a painless strategy for Saudi Arabia. The government depends on oil exports for 80% of its revenue.

For the Saudi royal family, this is life or death. If they play the oil card wrong, it could end the House of Saud.

Saudi Arabia has a very simple social contract. The royal family gives Saudi citizens cradle-to-grave welfare without taxation. The Saudi government spends a fortune on welfare, which effectively keeps its citizens politically sedated. In exchange, the average Saudi citizen forfeits any political power he would otherwise have.

The royal family and those connected to it are very wealthy. But most Saudis are not. A quarter of the population lives in poverty and completely depends on state handouts. Youth unemployment is 29%. If the Saudi government couldn't afford generous handouts, there would be little to keep the masses from revolting against their extravagant, authoritarian masters.

Lower oil prices, plus the cost of regional mischief (underwriting expensive and failing wars in Syria and Yemen), have cut deep into government revenue. So there's less money to spend on welfare. This creates an existential problem for the House of Saud.

There's a serious crunch in the Saudi budget right now. The government is only staying afloat by draining foreign exchange reserves.

Saudi Arabia was estimated to have \$600 billion in reserves. But, in the past two years—as oil revenues plummeted and spending skyrocketed—it's bled out at least \$140 billion. Furthermore, analysts estimate that the kingdom has around \$340 billion worth of liabilities.

Given the **net** size of their reserves, and the extreme drain, the Saudis are in serious trouble.

The situation is so grave that the Saudis are planning to sell a stake of their crown jewel—Saudi Aramco, the state oil company. Merely considering this gives off a whiff of desperation.

Saudi Aramco is the world's most valuable company. The IPO could be the world's largest ever, too.

There's also a strong smell coming from the currency markets...

For the first time in decades, observers are questioning the viability of the Saudi currency, the riyal.

The Saudi central bank currently pegs the riyal at 3.75 riyals per US dollar. It needs a hefty reserve of US dollars to support the peg. Bleeding those reserves threatens the currency peg.

If the currency peg breaks, the riyal would be instantly devalued by, say, 20% or more. This would increase the cost of living for Saudis across the board and trigger social unrest. That would be a very big problem for the government.

Given Saudi Arabia's dire financial situation, speculators started shorting the riyal en masse earlier this year.

This did not make the Saudi government happy. It promptly banned all local and international banks within the country from selling options on riyal forwards (how most speculators were shorting the riyal).

The Saudis might be able to suppress things for now, but the market will prevail.

Until recently, the Argentine government also tried to artificially prop up its currency. Not surprisingly, it eventually failed. As one of my Argentine friends told me, “You can only hide the sun for so long.”

Right now, the Saudis are trying to hide the sun.

Meanwhile, Saudi officials have started telling the media that the currency peg is fine. That’s another clue there’s trouble. Official government denial is almost always a sign of the opposite. It’s like the old saying: “Believe nothing until it has been officially denied.”

As [George Soros proved](#), breaking a currency peg can be enormously profitable. That’s why I looked for a convenient way to short the riyal. I couldn’t find one. So I asked someone who would know, if it were at all possible.

As I said, I lived in the Middle East for around three years. During that time I made connections with some of the region’s top investment bankers. I recently asked one who specializes in the Saudi market how we could short the riyal. If anyone would know the best way, it would be him.

Here’s what he told me:

Regarding the Saudi Riyal. I asked the derivative guys at the office and they do not seem to think it is possible as the regulator has been really clamping down on Saudi banks facilitating that.

If there were a convenient way to short the Saudi riyal, I would recommend it in a heartbeat. But right now there isn’t. If I find a way to do it, I’ll let you know immediately.

Putting it all together...

In March I predicted that Saudi Arabia would have to stop saturating the oil market:

If the Saudis don’t stop flooding the market—and there are no signs they will—they won’t be shooting themselves in the foot... but in the head. Saudi Arabia will either collapse or surrender—and stop flooding the market.

Either way, oil will eventually go a lot higher.

In the meantime, we have a huge opportunity...

The crisis in the oil market gives us a second chance to invest in the American shale revolution. Now is the time to get ready to buy the highest-quality shale companies at bargain prices.

You should view the Saudi-driven crisis in the oil market as your opportunity.

A few weeks ago the Saudis did exactly that. They capitulated. During an OPEC meeting, Saudi Arabia agreed to cut production for the first time since 2008.

The Saudis had to swallow a bitter pill. The decision meant abandoning their efforts to bankrupt US shale oil producers. The Saudis had lost the oil war.

I predicted this exact outcome. In February I wrote, “the shale industry actually has more staying power than Saudi Arabia in the oil war.”

## How to Profit

Earlier this year, at the height of the Saudi oil war, we hit the moment of maximum pessimism for US shale oil producers.

Most oil companies were struggling to survive. But I knew the downturn wasn't permanent.

The oil market is highly cyclical: It goes through booms and busts. At the time it was in a huge bust, rooted in a single temporary anomaly: Saudi Arabia.

Oil had nowhere to go but up. Many shale oil stocks were trading at multi-year lows.

It was a second chance to invest in the shale boom, but with the advantage of hindsight. That led me to recommend EOG Resources in March, which is up more than 37% since.

While EOG is not a screaming bargain anymore, I still think it will go a lot higher now that the Saudis have abandoned their oil war. EOG should also get a boost from Donald Trump, who is much more sympathetic to the US fracking industry than Obama.

The breakdown of the petrodollar system will be good for the dollar price of oil. That's one of the main reasons I'm so excited about EOG's upside.

However, oil stocks aren't nearly as cheap as they were when I recommended EOG. So, let's look at other ways to profit from the end of the petrodollar system.

I also showed *Crisis Investing* subscribers how they could profit...

As I explained earlier, shorting the Saudi riyal is off the table for now. But you'll be the first to know if I find a practical way to do it.

Another option is to short Saudi stocks. But again, there are practical hurdles. The most straightforward route is to short the **iShares MSCI Saudi Arabia Capped ETF (KSA)**. But it's unlikely your broker would be able to locate enough shares for you to short this tiny ETF. I'll keep my eye on this option. But for now it's not an official recommendation.

So what's left?

### **Gold.**

#### **It's the best way to profit from the end of the petrodollar.**

Like the breakdown of the Bretton Woods system, the death of the petrodollar system will be good for gold. And, unlike oil, gold is still bouncing around its lows. Gold mining stocks are still very cheap.

When Nixon took the dollar off gold in 1971, it skyrocketed over 2,300%, from \$35 an ounce to a high of \$850 an ounce in 1980. Gold mining stocks did even better. I expect the returns to be at least this great after the end of the petrodollar.

We already have Gold Fields Ltd. (GFI) in the portfolio. But I'd like to add another gold stock with even more explosive upside... a quality junior gold miner with at least 10-bagger potential as the petrodollar bites the dust.

Stay tuned. I'll update you soon on this.

## **An Update on the Collapse of the EU**

The first domino has fallen...

I recently spent several weeks in Italy, and the December 4 Italian referendum turned out exactly how I predicted.

The "No" vote won, with 59% of the vote. The pro-EU prime minister, Matteo Renzi, promptly announced his resignation after the crushing defeat.

A surging populist party is waiting in the wings. It's likely a matter of months before they take power and hold a new referendum on whether Italy should dump the euro and return to the lira.

If that happens, Italians will likely vote to leave.

Without Italy, the euro currency would likely disintegrate. Without the euro, the whole European Union—the world's largest economy—would likely come unglued.

I think Italy's referendum is just the first of many dominoes set to fall.

These ones are next...

### **A Banking Crisis**

The "No" side's December 4 triumph will accelerate the crises in the Italian banking system, which was already on the verge of collapse. Massive bail-ins now seem unavoidable.

Bail-ins are political nitroglycerin. If and when they happen, expect support for anti-euro Italian populist parties to explode.

### **The Super Bubble in Italian Government Bonds Will Burst**

With the failure of the December 4 referendum, I think the Italian government bond super bubble has found its pin.

This means there are two possibilities...

First, the European Central Bank will have to put the printing press into overdrive to accelerate its program to buy Italian government bonds. This would incentivize other governments to act recklessly, assuming the ECB has their backs. That, of course, would hurt the value of the euro.

The alternative is the Italian government acknowledges that it's bankrupt. This would humiliate Italy's mainstream parties and vindicate the populist parties. Defaulting on the country's unsustainable debt is one of the populist parties' planks.

Either outcome is bad news for the Eurocrats.

### **Other Key European Elections**

A populist wave is washing through Europe. It will drastically change the Continent's political landscape in a way not seen since before World War 2.

The wave will flush away traditional "mainstream" parties and bring in anti-establishment populists who want to leave the euro currency and the European Union.

It's already hit the UK in the form of Brexit, killing David Cameron's pro-EU government in the process.

It struck Italy earlier this month, washing away pro-EU Matteo Renzi.

This anti-elite surge is building momentum. I think the failure of the Italian referendum is the tipping point. It makes the trend unstoppable.

Voters in Europe's biggest countries could soon throw out their "mainstream" parties in favor of populist and Eurosceptic alternatives.

2017 will be a decisive year.

Voters go to the polls in major elections soon... the Netherlands on March 15, France on April 23, and Germany between August 27 and October 22.

Anti-euro populists have a real chance in each election. If they win even one, the EU would likely unravel.

## Your Bottom Line

My thesis for the collapse of the EU is getting stronger and stronger.

As one Italian politician recently put it, we're now much closer to the euro melting away like a gelato left out in the August sun.

I expect the euro to tank soon.

Earlier this month it broke below its March 2015 low of \$1.046. That should pave the way for it to soon test parity with the US dollar (which hasn't happened since late 2002). If that happens, look out below.

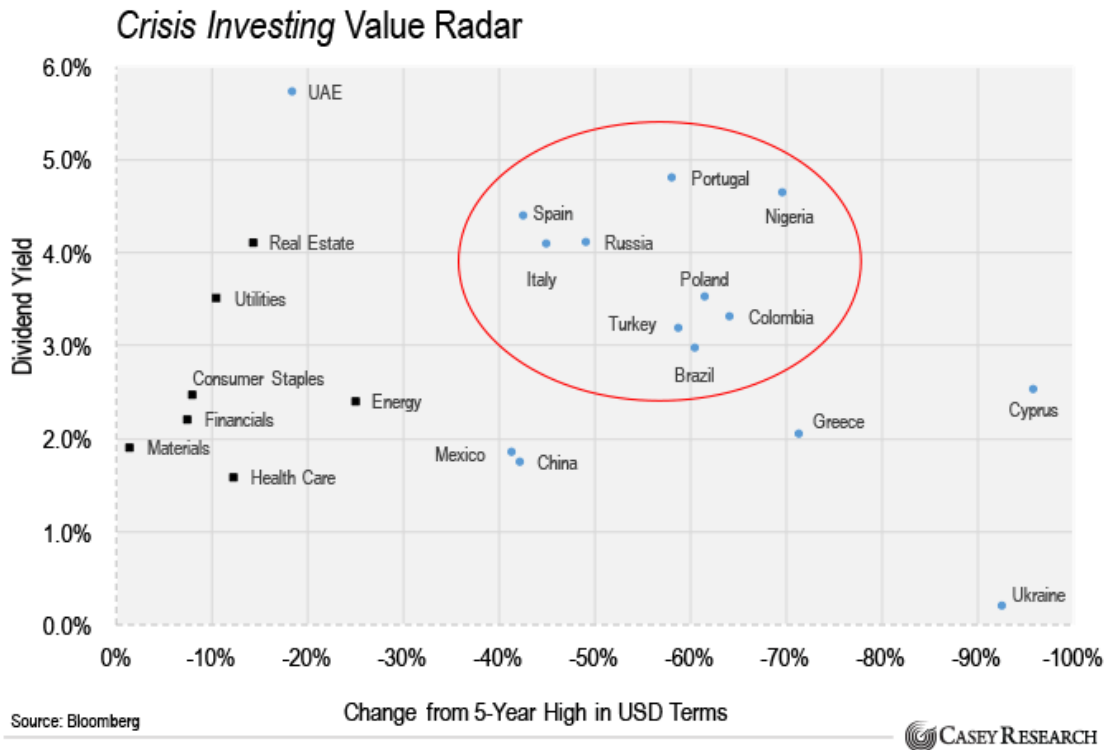
The most straightforward way to profit is to short the euro. [ProShares UltraShort Euro ETF \(EUO\)](#) is a convenient way to do that. It trades in New York, just like any US stock.

EUO seeks investment results that correspond to twice the inverse daily performance of the US dollar price of the euro. In other words, if the euro *falls* 10%, EUO should *gain* 20%. Keep in mind that the opposite is also true: If the euro rises 10%, EUO will fall 20%.

I first recommended EUO in August 2016. It's now up around 17%. But this party is just getting started. We're continuing to recommend **buying EUO at current prices**, while using a 50% hard stop loss.

Plan on holding EUO for up to a year as the other dominoes fall in Europe in 2017.

# Value Radar



## How to Read the *Crisis Investing Value Radar*

Value Radar surveys the world's equity markets for beaten-down prices and high dividend yields. It's a tool for pinpointing the richest crisis markets for us to pick up elite businesses at bargain prices. To make sure the comparisons are apples to apples, we measure prices in the same currency, US dollars. The performance we're looking for is a big decline from a market's five-year high. The yield we're looking for is the fattest and juiciest we can find. Dividends are the most reliable simple indicator of true value. You can believe in the cash payments landing in your pocket. Reported earnings aren't as reliable: It's too easy for a company's management to pump them up by choosing the right accounting formalities. Book value is just as susceptible to manipulation. Stretching facts (or ignoring them) can push book value toward whatever management wants it to be. Also, accounting and reporting standards vary widely across the world. Dividends, on the other hand, are actual cash payments. They are real, and nothing is easier to measure or harder to fake. It's astounding what you can get in dividends alone when a market reaches bottom, something a lot of people have forgotten. Looking at the chart above, we're most interested in the upper right corner. We've circled the sweet spot that shows the most beaten-up crisis markets with the highest dividend yields. It's the key to finding elite businesses at bargain prices.

# Portfolio Update

## Cameco Corp. (CCJ)

If I were putting my own money into something today, it would be uranium, hands down. It has the most explosive upside right now.

Doug Casey says, “When the market wants into gold stocks it's like trying to force the contents of Hoover Dam through a garden hose. In the case of uranium stocks, it's more like a soda straw.”

Then there's the Trump factor.

Trump is strongly pro-energy, and pro-nuclear in particular. He has said, “I'm in favor of nuclear energy, very strongly in favor of nuclear energy.”

Nuclear energy fits right in with Trump's “America First” platform. It's critical for securing the country's energy independence.

I can't think of a commodity with more upside and less downside than uranium right now.

### **Uranium is my #1 investment for 2017.**

Cameco Corporation is the “best of breed” uranium company. It's the premier play on higher uranium prices.

Based in Canada, Cameco is the world's largest and lowest-cost uranium producer. I have no doubt the company will survive this downturn and deliver huge profits to investors in the coming uranium bull.

Even though it's a multibillion-dollar industry dominator, Cameco has the upside of a junior exploration company—think 10-bagger or better. Stay long.

## UPDATE

As we go to press, I need to share with you an urgent update.

Last month I told you I'd update you on when to buy the highest-quality uranium junior stock once it became clear the market had turned.

There's a very good chance that a recent development could signal exactly that. And that development is Donald Trump.

As I've noted, Trump is very keen on nuclear energy. He's also very keen on nuclear weapons.

Recently he said:

[The United States] must greatly strengthen and expand its nuclear capability until such time as the world comes to it senses regarding nukes.

It was a comment clearly aimed towards Russia, the world's other major nuclear power.

Russian President Vladimir Putin clearly got the message. The same day he said, “We need to strengthen the military potential of strategic nuclear forces.”

To which Trump replied:

Let it be an arms race. We will outmatch them at every pass and outlast them all.

The message is clear. The world's two largest nuclear powers are calling for more nuclear weapons.

This will be a huge boost for the uranium market. It's just the type of signal I was waiting for to recommend a quality junior uranium stock.

I believe the highest-quality junior uranium stock is Uranium Energy Corp. (UEC).

Today, I'm recommending you **Buy UEC at current prices.**

We're not using a stop loss here. We'd consider selling our shares if there's another nuclear disaster or if something else alters the fundamental attractiveness of the long-term supply/demand dynamics of the uranium market.

I'll have all the details on UEC in the January issue of *Crisis Investing*.

## **[Agroton \(AGT.WA\)](#)**

Agroton has been on a tear since I recommended it in July.

Earlier this month I sent out an email alert to sell and lock in some big profits. This investment returned us 103%—a double—in only around four months.

## **[Grupo Aval \(AVAL\)](#)**

Today, rabid violence in Colombia is just a cheap Hollywood cliché. Anyone who's been there recently would tell you the same. The country has made an incredible transformation.

There's a popular joke among foreigners living in one of Colombia's largest cities, Medellín. "The only danger you face in Medellín is that you may never want to leave."

It's not Pablo Escobar's Colombia anymore. Reality is wildly different from the stereotypes of the past.

This perception gap has created a huge opportunity. It helps keep Colombia incredibly cheap. I can't think of a country that offers better value.

I'm certain the average person's perception of the country is completely backwards... so certain that I've personally made a large real estate investment there.

I think there's a huge amount of money to be made in Colombia in the years ahead. But this opportunity won't last long once the world figures out the country's tremendous value.

Earlier this year I identified a quality Colombian company you can buy cheaply. It gives us exposure to the country's growing economy and middle class. The stock trades in New York, so it's as easy to buy as any US stock.

Think of Grupo Aval as the Colombian version of Warren Buffett's Berkshire Hathaway. It's a holding company that invests in Colombia's elite businesses.

I still think there is a huge amount of upside in 2017—at least a double from current prices—in addition to the 4.8% dividend yield. Stay long.

## **[Morgan Stanley China A Share Fund \(CAF\)](#)**

The US media has barely made a peep about it. But China's New Silk Road is one of the biggest stories of the century.

For over a thousand years, the ancient Silk Road was the world's most important land route. At 4,000 miles long, it was the main trade route for lucrative Chinese silk, passing through a chain of empires all the way from China to Europe.

Now China is building a New Silk Road.



## It is history's biggest infrastructure project.

Chinese President Xi Jinping announced the gigantic plan in late 2013. The New Silk Road will include high-speed rail lines, modern highways, fiber-optic cable networks, energy pipelines, seaports, and airports. It will link Europe's Atlantic shores to the Pacific shores of Asia.

It's no surprise that massive amounts of money are already flowing into China's New Silk Road. Accounting firm PricewaterhouseCoopers estimates that more than \$250 billion has already been invested in New Silk Road projects like railways and power plants. Current estimates say that number could reach a trillion dollars.

Investors who get in right now—ahead of this trillion-dollar tsunami—are likely to make enormous profits.

The New Silk Road is still in the early stages, but important pieces are already falling into place.

Fortunately, the Morgan Stanley China A Share Fund (CAF) is an easy way to join the party. It's simply the best and most convenient way for you to profit from China's New Silk Road. We're already up over 6%.

This trend is in its infancy. There's much more upside left. I expect many more positive developments from China's New Silk Road in 2017. Stay long.

## [Impala Platinum Holdings \(IMPUY\)](#)

Like silver, platinum is a precious metal and an industrial metal.

Donald Trump's proposed \$1 trillion in infrastructure spending is clearly bullish for industrial metals. Plus, he'll have to pay for that trillion-dollar program by printing money... also bullish for precious metals. It's a double Trump tailwind for platinum.

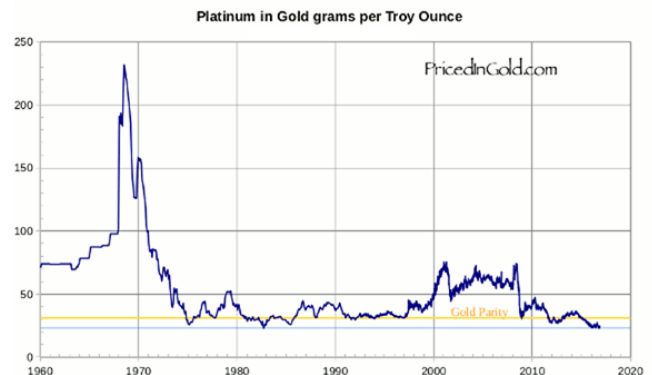
And there's another reason to be optimistic...

## There's a historic anomaly in the platinum market right now.

People call platinum "the richer man's gold." That's because platinum is almost always more expensive than gold. In fact, platinum prices have dipped below gold prices only a few times in the last hundred years.

Now is one of those times.

You can buy nearly one and a quarter ounces of platinum with one ounce of gold. That's rare.



Priced in gold, platinum is at an all-time low.

I think, at the very least, we can expect platinum to revert to the mean. That would mean huge returns for quality platinum producing companies like Impala Platinum Holdings (IMPUY). I expect it to triple, at least, as platinum prices revert to their historical mean, which should start in 2017. Stay long. This story has a long way to go.

## [Gold Fields Ltd. \(GFI\)](#)

Gold Fields is one of the largest gold miners in the world. And at current prices, it has huge upside potential.

It's uncommon for a large, multibillion-dollar company to hold such enormous potential for investment return. But the opportunity is here.

The gold-mining industry is in one of its worst downturns in decades. Gold prices have dropped over 40% from their 2011 peak. This has put enormous pressure on mining companies. Most are in survival mode. They're trying to cut costs to stay profitable.

I think Gold Fields will do far more than just survive. When gold breaks out of its almost five-year bear market (I think it already has), the company will hand huge profits to its shareholders. I expect shares to at least triple from current levels in the next 12–18 months.

Gold Fields has taken a beating lately as gold prices have dropped. But I believe this is only temporary. Gold and other precious metals are going a lot higher as the petrodollar collapses.

## [So we are removing the stop loss on Gold Fields and Impala Platinum Holdings.](#)

We'll only sell if something alters the fundamental attractiveness of these investments. That way we won't get whipsawed out of our positions right as the petrodollar is about to collapse.

## [The Herzfeld Caribbean Basin Fund \(CUBA\)](#)

It's not easy to invest in Cuba. The only practical way—and the only legal way for Americans—is through **The Herzfeld Caribbean Basin Fund (CUBA)**, which owns stock in companies that will benefit from the US trading with Cuba. The fund trades in New York like any ordinary stock.

Thomas Herzfeld created the fund in 1994. From his base in Miami, Florida, Herzfeld has been analyzing the best stocks to profit from the end of the embargo for more than 20 years. His expertise is unparalleled.

With Fidel Castro's recent death, I think it's just a matter of time before American tourism to Cuba explodes. The IMF estimates up to 10 million potential visits from Americans every year.

There are currently only 61,000 hotel rooms to accommodate tourists, according to the Cuban ministry of tourism. That means Cuba's hotel capacity can only accommodate a tiny fraction of the American tourists expected to visit the country.

There's potential for explosive investment returns here. CUBA is the best way to tap into this trend. Stay long.

## [Black Earth Farming \(BEF-SDB.ST\)](#)

The Black Earth region of Russia is one of the world's richest, most fertile agricultural zones. For centuries it was known as the “breadbasket of Europe.” Its black soil is loaded with high concentrations of phosphorus, ammonia compounds, and other nutrients.

Black Earth Farming owns and operates farms in this region. It's how we're investing in some of the world's highest-quality and best-priced agricultural real estate. We're getting some of the most strategic agricultural real estate on the planet for pennies on the dollar.

Black Earth Farming shares are up over 80% since I first recommended buying them. There's still some upside. I recommend you stay long.

## [Ferrari \(RACE\)](#)

Ferrari is on our Watch List.

According to Brand Finance—the world's leading independent brand valuation and strategy consultancy—Ferrari is not just a carmaker, but “the world's most powerful brand.” Not Google. Not Coca-Cola. Not Disney. Not Rolex. Ferrari.

The legendary Italian carmaker represents speed, luxury, and wealth. It's also one of the most profitable carmakers in the world. The company's EBITDA margin is around 29%. That's much higher than the single-digit margins of most automakers.

Ferrari is more than just a car company. This is partially why its margins are so much higher. Ferrari uses its powerful brand to sell merchandise that adds high-margin revenue. The powerful brand—and the company's ability to exploit it—make Ferrari unique.

We'd welcome a chance to pick up Ferrari at crisis-driven prices, but we're not there yet. We're not even close.

Given how coveted Ferrari is, the opportunity may never materialize. But if Italy suffers an economic collapse—a very real possibility in the months ahead—we might get our chance. I'm watching closely.

## [Ambev \(ABEV\)](#)

“Welcome to Hell.”

This was the billboard message from local police officers in Rio de Janeiro, welcoming tourists and athletes to this past summer's Olympics in Brazil.

Violent crime in the city is out of control. The police were basically warning foreigners that things were worse than they'd imagined. Their real message was, “You're on your own.”

Hosting the 2016 Summer Olympics gave many foreign investors the impression that things are okay in Brazil. But I think that facade will wear off soon, revealing the deep problems bubbling under the surface.

Brazilian stocks have rallied since Brazil's left-leaning president, Dilma Rousseff, was impeached.

As far as I can tell, foreign investors are buying in hopes the new government will magically make things better. I don't see that happening.

Brazil is in its worst economic downturn since the 1930s. In the past year, the Brazilian economy has shrunk by 4.5%... its worst drop since it started keeping economic statistics.

Rating agencies are downgrading Brazil's sovereign debt to junk status.

Meanwhile, Brazil's annual inflation rate recently topped 10% for the first time in 12 years. The country's unemployment rate is near a six-year high. And Brazil's currency has lost over 35% of its value against the US dollar since July 2014.

In the past 75 years, Brazil has completely destroyed its currency five times. On average, there's a currency collapse every 15 years. The last one was in 1994, which means Brazil is overdue.

Replacing one corrupt government with another won't fix the country's deep structural problems. The worst is yet to come in Brazil. It's shaping up to be a lovely train wreck.

I believe that soon, one of these things, or a combination, will trigger a full-blown crisis. It will thrust Brazil onto the front pages of First World newspapers... and get Wall Street to say, "Sell anything Brazilian."

Soon, something will flush out the remaining foreign investors. Something will have the psychological effect of shouting "Fire!" in a crowded movie theater.

I expect we'll get a chance to buy world-class Brazilian companies at fire-sale prices in 2017. Number one on our shopping list is Ambev, a best-of-breed Brazilian beer company. It's currently on our Watch List.

The collapse in Brazil hasn't come as early as I thought it would. But it pays to be patient in these situations.

[I once asked](#) legendary investor Jim Rogers about being accurate but early on investment recommendations. Here's what he told me:

Oh, that's the story of my life. I've always been accurate but early.

If I'm convinced something is going to happen or if I should make an investment, I have learned that I should wait for a while, because maybe it is too early. And it usually is too early.

I try to discipline myself to wait longer or to put in orders below the market and let the market come to me. But even then, sometimes I'm still too early.

## Announcements

Doug and I recently appeared on a special episode of the *Ron Paul Liberty Report*...

[In this episode](#), we discussed "the end of globalism." It's a powerful discussion that we think you'll enjoy. You can watch it [right here](#).

Also, we've just confirmed the dates for **Doug Casey's next private retreat at [La Estancia de Cafayate](#)** in Argentina... and you are invited.

**This exclusive event takes place March 14–19.**

You'll join Doug Casey, myself, and friends in an immersive experience of the good life in Cafayate. The week will be filled with exciting social events, including cocktail parties, horseback riding adventures, golf, tennis, luxuriating at the athletic club and spa, dining out on Cafayate's scenic plaza, and generally enjoying Argentina.

There will also be plenty of opportunities to network with successful, like-minded individuals from around the world.

Most importantly, this retreat will allow you to fully appreciate why, out of all the places in the world, Doug chose Argentina—and specifically Cafayate—as the place to build his freedom seekers' lifestyle community.

As you are probably aware, there has been a massive shake-up in Argentina's government, with a free-market advocate replacing a dysfunctional populist president. Now the country is brimming with renewed optimism.

With its markets opening up, there's a good chance Argentina will offer some very attractive investment returns in the months ahead. Be sure to mark the dates: March 14–19.

The only way to fully appreciate the opportunities in Argentina and the good life at Doug's La Estancia de Cafayate is to visit in person.

Space is extremely limited. For more information about this special retreat with Doug Casey and me, and how to attend it, send an email to [JoinNick@LaEst.com](mailto:JoinNick@LaEst.com).



A handwritten signature in black ink that reads "Nick G." with a stylized flourish at the end.

**[Nick Giambruno](#)**  
Senior Analyst

**P.S.** I want to hear from you. If you have a question or anything to tell me about this month's issue (or about a past issue), please send it to me at [crisisinvesting@caseyresearch.com](mailto:crisisinvesting@caseyresearch.com). I read every email that comes in from subscribers.

I can't respond personally to your emails. That's company policy. But I will address common questions in upcoming issues.

# Crisis Investing Model Portfolio

## Recent Prices

Stock	Industry	Action	Ref. Date	Ref. Price	Recent Price	Stop Price*	Total Return**
<a href="#">Uranium Energy Corp. (UEC)</a>	Uranium	Buy	12/27/16	NEW		-	
<a href="#">Cameco Corp. (CCJ)</a>	Uranium	Buy	11/22/16	\$9.26	\$10.59	-	14%
<a href="#">iShares Italy Government Bond UCITS ETF (IITB.L)</a>	-	Sell Short	11/15/16	€157.13	€157.80	-	0%
<a href="#">ProShares UltraShort Euro ETF (EUO)</a>	-	Buy	8/23/16	\$23.45	\$27.69	\$11.73	18%
<a href="#">iShares MSCI Poland Capped ETF (EPOL)</a>	-	Buy	7/26/16	\$17.50	\$18.03	\$8.75	3%
<a href="#">Agroton (AGT.WA)</a>	Consumer Products	Sell Over PLN 4.00	7/27/16	PLN 2.00	\$2.95	PLN 1.00	103%
<a href="#">Grupo Aval (AVAL)</a>	Financials	Buy	6/28/16	\$7.88	\$7.94	\$3.75	3%
<a href="#">Morgan Stanley China A Share Fund (CAF)</a>	-	Buy	5/24/16	\$16.96	\$17.24	\$7.67	7%
<a href="#">Impala Platinum Holdings (IMPUY)</a>	Metals & Mining	Buy Under \$10	4/26/16	\$3.78	\$3.07	-	-19%
<a href="#">Delta (DLTA.ZW)</a>	Beverages	Buy Under \$1	4/27/16	\$0.64	\$0.90	\$0.27	48%
<a href="#">Gold Fields Ltd. (GFI)</a>	Metals & Mining	Buy Under \$8	3/22/16	\$3.86	\$2.73	-	-28%
<a href="#">EOG Resources (EOG)</a>	Energy	Buy Under \$100	3/22/16	\$75.90	\$103.48	\$37.45	37%
<a href="#">Herzfeld Caribbean Basin Fund (CUBA)</a>	-	Buy Under \$11	12/22/15	\$6.99	\$6.71	\$3.20	0%
<a href="#">iShares MSCI UAE Capped ETF (UAE)</a>	-	Buy Under \$32	4/28/15	\$21.16	\$17.21	\$9.59	-14%
<a href="#">Bank of Cyprus (BOC.AT)</a>	Banking	Buy Under €0.24	12/23/14	€0.21	€0.14	€0.11	-35%
<a href="#">Black Earth Farming (BEF-SDB.ST)</a>	Consumer Products	Buy Under SEK 3.50	11/26/14	SEK 2.80	SEK 5.05	SEK 1.40	80%
<a href="#">January 2018 puts on the iShares MSCI Brazil Capped ETF (ticker: EWZ) at a strike price of \$12</a>	-	Buy	4/26/16	\$0.47	\$0.15	-	-75%

### Watch List

Stock	Industry	Action
<a href="#">Ferrari (RACE)</a>	Automotive	Buy Under \$25
<a href="#">Adecoagro (AGRO)</a>	Consumer Products	Buy Under \$9
<a href="#">Ambev (ABEV)</a>	Beverages	Buy Under \$2.55

### Closed Positions – Top Winners

Company	Total Return
Agroton	103%
Integra Gold	103%
Lordos Hotels	214%
Logicom	171%
Dimco	97%
Frou-Frou Biscuits	95%
Atlantic Insurance	61%
Petrolina	45%
Demetra Investment	42%

\*A stop loss is a predetermined price at which you will sell a stock if it declines. Reduce the stop-loss trigger price by any dividends received. Only use closing prices to determine whether a position has hit its trailing stop.

\*\*In local currency, includes dividends. This portfolio generally won't represent the exact price at which you could get into or out of a stock. Rather, it reflects the opportunities available at the time the issue is prepared.

Please keep track of stop losses on stocks you own. If a stock hits its stop, we'll write about it in our next monthly issue. However, we will not send out alerts between issues. It's your responsibility to monitor your portfolio and follow the stop losses we provide.

## Doug Casey on Islam

On the topic of Saudi Arabia it seemed logical to crystallize a few thoughts on Islam, and what that means to us in the West, not least as investors.

Some might protest that a discussion of religion has no place in an investment letter, but I hold it's just as relevant as discussions of politics, science, technology, history, or any other area of human endeavor. Investments don't exist in a vacuum. Not considering such basics is a fundamental error, whether it's politically correct or not.

I think it's worth a look at the Muslims, and what they believe. You may be asking yourself what relevance that has to us. In a perfect world, where people minded their own business, the answer would be very little. But that's not the world we live in.

Islam may be the world's largest religion, at least if you consider the number of real, as opposed to just nominal, believers. It's certainly the world's fastest growing, dominating the lives of about a billion people who live in what a wag might call the Koran Belt, extending from northern Africa, through all of the Mideast and Central Asia, right through western China and down to Indonesia. It's a part of the world with lots of poor people, and little capital. Many repressive governments, and little freedom. To what degree, if any, is that the fault of Islam?

We are told the Prophet (Peace Be Upon Him, a phrase the faithful usually appended to a mention of his name, often abbreviated to p.b.u.h.) was a merchant until, at age 40, he was visited by the angel Gabriel.

Gabriel related the wishes of Allah (The Compassionate, The Merciful perhaps the most common of the many benefactions used by the faithful) to him, which Muhammed transcribed as the Koran.

Islam attracts people for the same reason all religions do: It offers a neat package explaining the meaning of life, while promising eternal bliss after death. But it has some characteristics, and makes some promises, rendering it especially attractive to the poor and downtrodden. And that means its potential market is about 75% of the world's people.

### The Essence of Islam

Islam has a number of sects and variations, but only a tiny fraction as many as Christianity. It won't serve a useful purpose to go into them now, except to observe that the reason for the relatively small number of variations is that it's necessarily a much more cohesive faith than Christianity, being based on one rather short book, promulgated by one man, whose status is clear; the religion leaves relatively little open to interpretation. The basic pillars of Islam tend to unify believers, whatever other differences they may have; internecine warfare between Muslims over religion has been the exception. It's unclear to me what actually constitutes an observant, or perhaps a "saved" Christian; opinions differ widely among the religion's many sects. There's no question, however, about who is an observant Muslim: One must only adhere to its Five Pillars.



- 1) **The Shahada, or Profession of Faith.** This is the essence of Islam. One must say aloud, sincerely and purposefully, "There is no God but Allah, and Mohammed is his prophet."
- 2) **Prayer.** One must pray, in a ritualized manner, five times a day, in congregation if possible.
- 3) **Zakat.** One must give a certain percentage of one's assets to the poor each year.
- 4) **Fasting.** One cannot eat, drink, or smoke from dawn to dusk during Ramadan, the ninth month of the lunar calendar.
- 5) **Hajj, or pilgrimage.** One must journey to Mecca at least once, if it's possible to do so.

There you have it. And it certainly seems like a small price to pay to gain paradise, where one engages in pleasures of the flesh for eternity, surrounded by doe-eyed houris. Infidels and apostates, meanwhile, may expect to burn in sulfur for eternity.

Islam offers benefits in the here-and-now, as well. It cultivates a brotherhood of believers cutting across racial, ethnic, and linguistic barriers not just in theory, but in practice. It allows the believer to communicate directly with Allah, dispensing with an intermediary priesthood. It's a very fraternal and democratic religion.

The word Islam means "submission." Since Allah is all-powerful and all-knowing, as well as merciful and compassionate, it means that whatever happens is the will of Allah, and the faithful do well to accept it. This leads on the one hand to a mellow, destressifying view of life, which is a good thing. On the other hand, it can lead to an overly fatalistic view of life, wherein hard work and striving can be pointless. This may be one reason for the relative backwardness of the Muslim world.

If you want to convince others of something, the most important thing to remember is: "Keep it simple!" And Islam does that extremely well. The key to salvation is observance of the Five Pillars, and they're quite specific and well defined. There's no room, or need, for complex theological wrangling to confuse the issue. In addition, Islam cultivates a great deal of certainty, and that certainty is mightily abetted by its simplicity. If you want someone to believe what you do, certainty—a total, unwavering confidence in the correctness of your position—is 10 times more effective than any amount of intellectualism. Simplicity and certainty are the two indispensable elements of a successful mass religion. With this solid foundation laid by Allah, through the Prophet, enthusiastic early adherents were able to take the show on the road.

## The Reason for Islam's Early Success

The question often arises how Islamic civilization, which conquered much of the known world in the 150 years after the Hegira (Muhammed's flight from Mecca to Medina in 622 A.D.), preserved much of ancient civilization, and made innovations in mathematics, architecture, science, and literature, could have regressed to its present sorry state. Was it because Allah smiled on Muslims in their early years but, for some reason, has frowned upon them in more recent centuries? Or could there be some other force at work?

My theory is that Islam's flowering had relatively little to do with religion, per se, and a lot to do with a military organization, which was enabled by religious fervor. Great conquests usually begin with a unifying ideology, most often some form of nationalism or religion, and the simpler and more certain the better.

That's exactly what Islam gave the Arabs. I suspect any number of ideologies could have done as well but it's tough to argue with success. The conquests led to wealth, and wealth to civilization and progress.

## **War, Wealth, and Hypocrisy**

It's worthwhile examining the relationship between war and wealth. After all, most wars seem to have economic roots. At least until very recent times, conquest was the key to wealth and success.

Losing a war was a step to poverty (simply because the enemy stole everything you owned), and probably slavery. Largely because of the unity and fervor generated by their religion, the Arabs were extraordinarily militarily successful. I would hold, therefore, that the wealth Islam displayed early on, during its Golden Age, wasn't so much a direct product of Allah's Will, smiling on the piety of his believers, as the result of conquest. Conquest is what you call simple theft when it's perpetrated by a large, well-organized group. So the Arabs became wealthy just like every other successful pre-industrial empire. In pre-industrial, pre-technological times conquest was a formula for success. Nobody had qualms about it. The thought of war crimes tribunals, had they even existed, would have been laughable in times when the standard recompense for soldiers of a conquering army was three days of unrestricted looting, raping, and general mayhem in a fallen city.

Historically, when you conquer an enemy, and confiscate (another nice word for "steal") his possessions, you became wealthier. This was, however, much, much more true in pre-industrial times, when wealth was static (land, gold, livestock, etc.). As the Soviets found, it's less true in industrial economies, because they are based on continuing massive production, and because the means of production depreciate and obsolesce. In today's hi-tech economy, simple theft is much, much less productive than used to be the case. In the old days, if you were able to steal some land or gold successfully, you were ahead of the game; land and gold defined wealth.

Today, if you steal a computer, you have nothing but a depreciating asset. You can't effectively steal know-how; because it's a process, not a concrete object. The higher the technological level of a society, the less sense theft makes. The whole story of civilization is one of the replacement of theft by production as a means to live. It's why, for instance, I never believed the Soviets would ever attack Western Europe; the very fact of conquering it would have destroyed the wealth they wanted. In a hi-tech world, theft is actually counterproductive, much like stealing the answers to a test really gains one nothing. That's not the way it was in the ancient world, however.

But if the after-conquest allowed the Muslims, tent dwellers riding out of the desert, to become wealthy, then hypocrisy allowed them to stay wealthy at least for a while. A good Muslim, even more than a good Christian, makes his religion not just the centerpiece of his life, he makes it his life.

If the Koran is the exact and indisputable word of Allah, then it's almost a blasphemy to read anything else, or learn about anything else, or do anything that doesn't relate directly to what Allah expressly tells you to do, unmistakably, in black and white. Unfortunately, this presents a conflict with about a thousand other things a human may need or want. So compromises are inevitably made, rationalized, and justified. Hypocrisy is necessary, even admirable, if you believe and say things that make no sense to do.

Don't get me wrong. Islam does not endorse either theft or hypocrisy; and these faults are in no way unique to it. The Roman Empire, whatever its numerous other virtues, gained most of its wealth by stealing it from the peoples it conquered and taxed. When it stopped expanding (with the reign of Hadrian) it almost necessarily went into decline. The same was true of the Spanish, Portuguese, British, and French empires, among others. I attribute their glories not to their righteousness, but to their temporary military prowess. The same is true of Islam. It's just that the unifying aspects of the religion aided mightily in their conquests. Muslims are no more hypocritical than followers of any other faith. And theft (unless it's called conquest) is much rarer in Muslim than Christian societies.

Just as stock investors often confuse a bull market with genius, religionists often confuse happy accidents of history with the fruits of righteousness.

### **Fundamentalism, Jihad, and Crusades**

What really concerns people in the West, however, aren't the economic, but the political ramifications of Islam. While many other religions, from Voodoo to Hinduism to Mormonism, may be viewed as quaint, nonsensical, or bizarre—but at least well intentioned—Islam is seen as threatening. That's because of Islam's political ramifications, including what was once the 6th Pillar, known as Jihad, or Holy War to defend, or spread Islam. That, understandably, scares Christians (and others). But no more, I suspect, than hearing a congregation sing "Onward Christian soldiers, marching as to war" on a Sunday scares Muslims (and others), while the US Air Force is plastering various Muslim countries.

Although there's no innate reason for a conflict between the US and the Islamic world, *Boobus Americanus* has been programmed for generations to see Muslims as The Enemy.

The US government consistently supports Israel, which the Muslims view as an outlaw, terrorist state. Show me a single movie, since Lawrence of Arabia, in which Muslims are portrayed sympathetically.

Not surprisingly, the Muslims see their lands and culture as having been under constant attack since the Crusades of the Middle Ages. The romantic image of knights in armor battling to free the Holy Land from the infidel is reversed in their eyes. They see hordes of unwashed European barbarians having invaded their homeland on a pretext, intent on rape, pillage, murder and wholesale looting. And, being as objective as possible about it, one has to credit their view.

And that was just the start of the Crusades, which continue to this day in the eyes of Muslims. Over the last two centuries, European armies have run roughshod over every Muslim country, now replaced by American armies. The "ragheads" in question don't like it any more than Americans would if the Iraqis were bombing New York every day, and had a "no fly" zone set up over the Deep South to protect a Black separatist movement in the area.

## Money and Finance

Some say that Islam is fine in itself and, as with Christianity, the problem is fundamentalism. Fundamentalism is basically living your life exactly according to the dictates of The Book, as least as you understand it. And this gets us back to the problem of hypocrisy. If Allah, via the Prophet, says it is wrong to charge interest on a loan, under any circumstances, how can you rationalize that with modern banking practices and economic theory, in which interest is the time value of money? If Jesus, who many Christians believe is God, says that it's easier for a camel to go through the eye of a needle than for a rich man to get into heaven, how can you rationalize being rich? Well, Muslim banks have at least 18 ways of getting a return on loans without calling it interest (fees, return gifts, commissions, tokens of appreciation, percentage of profit, etc.). As for how Christians solve the wealth conundrum, I'm sure we've all heard the answers in Sunday school. Query: Is this why Jews are famously richer than either Christians or Muslims?

Actually, despite all the problems fundamentalists of all religions cause (and have), you've got to respect them, if only because they're not hypocrites. They don't just talk the talk; they walk the walk. The real question is whether the talk itself should be relegated to the scrap heap of history. There may be cause for optimism. After all, Marxism was nothing but a secular religion, and today nobody but acknowledged morons, and some college professors, ever admit to having been believers.

## The Future of Islam

Having far too briefly and inadequately (but this is a newsletter, not a book) looked at why Islam arose, and what it is, let's explore where it's going. Should Islam be considered a threat to Civilization As We Know It? That question requires two, equally valid, answers.

One answer is a definite yes, Islam is a huge threat. That's because there's every reason to believe any number of groups in the Islamic world will attempt to defend themselves from the medieval Crusaders disguised as modern Americans. They'll fight back not with planes, missile cruisers, and tanks, but with weapons they can afford which are, ironically, not just vastly cheaper, but vastly more effective. We won't call their warriors "soldiers," but "terrorists," while forgetting that "I'm a Freedom Fighter, you're a Rebel, he's a Terrorist."

Some, especially those in National Security circles, discreetly ask what should be done about the Muslim threat. My answer is: Absolutely nothing. I don't see the Muslims as any more of a threat than the Christians, the Jews, the Hindus, or any other religious group. The ones I know are every bit as nice and decent as anyone else. Once, however, you start looking for an answer to the "Muslim question," you're looking for trouble of the worst kind, as did the Germans when they sought an answer to the "Judenfrage." Unfortunately, that's the direction America is moving. I don't doubt that, before this decade is out, those of us with Muslim friends may be watched as potential terrorists for that reason.

A second answer is a categorical no. Islam is not a threat at all. Paradoxically, one of Islam's greatest strengths is also one of its greatest weaknesses: namely, the fact it's more than just another religion; it's a complete world view. It doesn't just prescribe how one deals with the supernatural, or even just morality, but dictates one's approach to finance, science, art, politics, and life in general. This has a certain utility in uniting primitive people for the purpose of military conquest, using simple technology. If you can get a horde to think alike in most ways, even convincing them they're going to go to Paradise if they die on a Jihad against the enemy, you've got a formidable low-tech military force. In warfare, as Napoleon said, the psychological is to the physical as two is to one. But groupthink doesn't help much in any other area of civilization.

To the degree Muslims take their religion seriously, they will necessarily fall behind in every other area of human endeavor. That's because their religion takes absolute precedence over everything else, and regulates everything they do. The consequences of that are poor, at least if you value things like capitalism, freedom, science, and technology. And their consequence, prosperity. With no particular disrespect intended, slavish belief in a book that came to an illiterate Arab merchant in his dreams in the 7th century is less likely to lead to success in a wealthy high-tech world than one where people lived in tents, and counted their wealth in terms of camels.

For that reason, I've got to say the economic future of countries with Islamic traditions is not going to be what it could, or should, be. And that's a pity. But, as most people will acknowledge, there are more important things in life than money. Everyone has to make their choice. As for me, it means that, everything else being equal, stocks traded in these countries have to be cheap indeed before I'd consider buying them. But more on that another time.

Perhaps I haven't been completely clear about my bottom line with Islam. As a philosophical system it makes no sense; it's a completely irrational leftover from medieval times. I'm not a fan of any of the Abrahamic religions. But Islam is antithetical to the values of Western Civilization.

That said, what's equally irrational is how Westerners, and many "moderate" Muslims excoriate the "fundamentalists." None of these people seem to appreciate that, if the Koran is in fact the direct and incontrovertible word of Allah, then you should obey it to the letter. Including all the parts about subduing the infidels. Of course Muslims can rationalize, and just believe in the parts of the Koran they like. Much the way Christians just believe in the parts of the Bible they like, and forget about the politically incorrect parts, like those in Leviticus. But when push comes to shove, Muslims are much, much more serious about their religion than the average Christian. That's absolutely true in Europe, and to a lesser degree in the US.

So, although Islam is a backward, retrograde, irrational belief system with few redeeming characteristics, it's winning the war for hearts and minds. Because it's simple, certain, and humans apparently need religion. And that is a pity. Almost all of the good things in the world are due to Western Civilization. But the homelands of Western Civilization are rejecting it, especially the leading edges—the youth, the universities, the media, the churches, the intelligentsia, the entertainers, and political leaders. They believe in "multiculturalism," which is unworkable and destructive.

It's funny. Western Civilization's internal enemies almost destroyed it in the last battle, against Marxism. Fortunately that enemy collapsed first, but their beliefs did serious internal damage to the West, which lingers. This time we may not be so lucky. And the loss will have zero to do with the military and its expensive toys. Civilizations collapse from within.



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