

“While the Eurozone Edges Closer to Disaster...”

“We’re preparing for what comes afterward! One way or the other, the European crisis will end eventually. Once it does, there’s a tremendous market opportunity that we’re going to exploit.

“Here’s how we’re preparing for big profits in 2012!”

As the roller coaster in Europe continues—will the Greeks default? Will Italy implode? Will European banks collapse?—here in *Gold & Energy Advisor* we’re looking ahead.

As I said in *GEA* Special Report #76, the fear from the ongoing Eurozone disaster has spread to other markets. And one market that was hit particular hard was...

Oil!

But there’s no reason for this. As I explained in that Special Report, regardless of what happens in Europe, the world still has an insatiable thirst for crude.

Once the Eurozone crisis is settled and the fear subsides, the oil bull will resume. And we plan to rake in a lot of profits in *GEA*.

Before I go into detail on how that will happen, let’s talk more about why. Ever since oil got pounded in 2008/2009, I get questions about this.

After all, I started recommending oil when



James DiGeorgia, Editor

it was just \$36. We rode it all the way up to \$147, and made bonanza profits along the way. With such a long run behind us, why do I think there are still big profits left to collect?

Simple—it’s the fundamentals. Oil demand remains strong, but supply is tighter today than ever. Even as oil prices have risen for the last seven years, the forces to keep driving it higher have grown stronger.

Of course, the mainstream media are doing their best to convince you otherwise. As usual, they’re...

Hoodwinking the Public

To do well in today’s chaotic markets, you need to have a clear vision of what’s going on. And among all markets, oil is one of the highest-potential investments today.

Unfortunately, the media seem determined to keep people in the dark about this.

Here’s a great example. In September, Daniel Yergin wrote an article for the *Wall Street*

Journal. Yergin is very influential; he won the Pulitzer Prize for his book *The Prize: The Epic Quest for Oil, Money, and Power*, which was then turned into a PBS miniseries seen by 20 million people.

Since Yergin is so prominent, I'll use his article as an example of the Pollyanna misinformation being peddled today.

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First, Yergin tried to debunk 'peak oil': the idea that global oil production will eventually reach a peak, and then start to decline. (If you've been reading *GEA* for a while, you know that I've written about this several times.)

Yergin says that peak oil is a "specter" of unjustified "widespread fear." He soothingly explains that there's no reason to worry, because there's plenty of oil left: "The world has decades of further growth in production before flattening out into a plateau—perhaps sometime around mid-century."

Really? Let's look at how he justifies this.

The Pollyanna View

Yergin starts off by saying that despite the expectations of peak-oil advocates, we're still finding lots of new reserves each year. "Just in the years 2007 to 2009, for every barrel of oil produced in the world, 1.6 barrels of new reserves were added."

But here's the question he's avoiding: for every barrel of oil produced, we've added 1.6 barrels of *what*?

Yergin surely knows that most new "reserves" discovered today aren't oil at all. They're natural gas.

And although gas is a valuable commodity, it's not a substitute for oil. We can derive a few of the same products from it, like butane for cigarette lighters. But overall, it can't replace crude.

In other words...

Most new 'oil' discoveries are a sham

Like most media commentators today, Yergin has apparently been suckered by the energy industry. More and more, energy companies are reporting gas discoveries in terms of "barrels of oil equivalent"—the amount of energy the gas contains, expressed in the amount of oil you would need to get the same energy.

But this is a smoke screen. It's completely irrelevant how much "oil energy equivalent" is

represented by a non-oil energy source—it still can't slake the global thirst for oil.

The only reason energy companies are doing this is to cover up the decade-long replacement crisis. For many years, energy firms have tried to discover enough new oil to replace the crude that's produced every year. For many years, they've failed.

And not only are energy firms failing to find enough oil...

Energy companies are failing to find *cheap* oil

Yergin says that lots of new discoveries are being made. He gives two examples: "Ghana is on its way to significant oil production, and just a few days ago, a major new discovery was announced off the coast of French Guiana, north of Brazil."

These examples are real—but they also have serious problems.

1. They're only moderately-sized fields.
2. They're both offshore deepwater fields, which means...
3. They'll be slow and expensive to develop.

Question: Why didn't Yergin mention any large onshore finds of cheap, plentiful, easy-to-produce oil?

Answer: Because there aren't any.

Along with being misleading, Yergin is refuting a straw man here. He implies that if the peak-oil hypothesis were true, then oil discoveries would have stopped.

But that's not true. Peak oil states that oil will continue to be found—but over time, the new oil will be more and more expensive. And that's exactly what we're seeing.

Here's an important question. Why are we even looking for oil off the coasts of Brazil and Ghana? Offshore deposits under a mile of ocean water and 3-5 miles of rocky ocean bottom produce very expensive oil.

If cheap oil were still available, why would the world's top petroleum experts expend substantial resources looking for such expensive deposits? Obviously, they know that large deposits of cheap oil can no longer be found.

Pollyannas like Yergin avoid this issue. They also mislead the public on a related issue.

In his article, Yergin claims we still have plenty of oil left. He quotes the standard figure of 1.4 trillion barrels of proved and probable reserves.

Again, he should know better, because...

That number is a fraud.

It includes billions of barrels that don't exist—part of the reserves of six OPEC nations that are widely acknowledged to be lying. They're inflating the sizes of their reserves.

OPEC assigns production quotas based on the reserves of each member nation. Despite this, it doesn't audit the numbers that are reported. Thus, member nations have a tremendous incentive to lie.

(Some don't even try to cover up their deceit. Several OPEC nations routinely report the same level of reserves year after year, even as they produce millions of barrels annually without discovering any new deposits.)

Earlier this year in *GEA*, I compared OPEC's reported reserves to more realistic numbers. Of course, nobody knows the real numbers except the nations themselves.

But when we do a rough analysis...

It appears that at least 400 billion barrels of claimed OPEC reserves don't actually exist.

We see this not only in the bogus reserve reports, but also in supply/demand figures.

For example, when Libya fell into civil war earlier this year, its oil production of 1.4 million barrels per day dried up. Other OPEC nations were unable to make up the difference—not even Saudi Arabia, which supposedly has lots of spare production capacity.

And speaking of Saudi Arabia, there was the bombshell report earlier this year that...

The Saudis are lying. Their country alone has 300 billion barrels less than reported—and it's already peaked!

You probably heard about 'Cablegate'—the release by Wikileaks of thousands of classified US diplomatic cables. Among these messages were a series of cables sent to Washington by the American embassy in Riyadh.

It turns out that American diplomats had been given some shocking information from Sadad al-Husseini, the former head of exploration at Aramco (the Saudi state oil company). The Saudi geologist had privately warned that his country was overstating reserves by 40 percent (!) in order to encourage foreign investment.

This represents a 'loss' of about 300 billion barrels from global reserves—from just this one nation alone.

Not only that, al-Husseini confided that Saudi oil production had peaked. Although production of 12 mbpd (million barrels per day) was possible in short bursts, the Saudis can't sustainably produce more than 10 mbpd.

If you know anything about global oil supplies, alarms should be going off in your head right now. Saudi Arabia is the only nation in the world with (claimed) surplus production capacity. Apparently, that surplus capacity is a lie.

This means the world has no spare capacity whatsoever. As demand grows, it must be met by new production.

Which brings up another important point...

Pollyannas are ignoring rising demand

Yergin's article mentioned rising demand several times, but strangely enough, he never discussed any numbers.

Maybe that's because when you look at the numbers, you see something that rarely happens in commodity markets...

November 2011—See our website at www.GoldAndEnergyAdvisor.com for our updates, recommendations, and current model portfolio

Demand is overwhelming supply.

According to British Petroleum's latest *Statistical Review of World Energy*, global oil demand is 87.4 mbpd. But supply is only 82.1 mbpd. In other words, oil has a deficit of 5.3 mbpd.

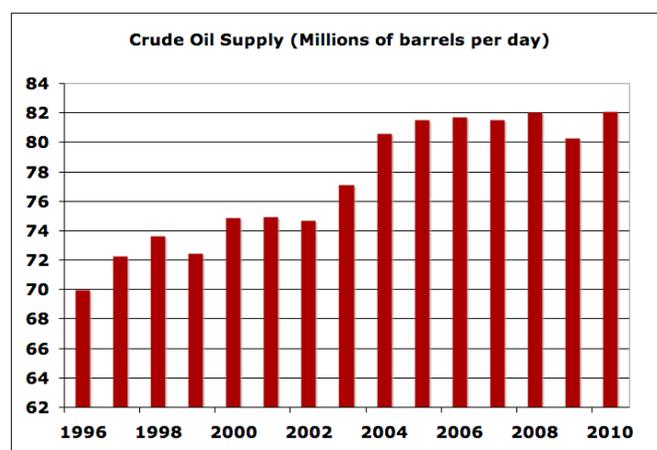
(BP notes that the deficit is made up by "stock changes"—in other words, drawdown of reserves—and consumption of non-petroleum additives and substitutes.)

And the supply/demand imbalance is getting worse instead of better. Conservative estimates have demand rising by 1.4 percent per year. From its current baseline of 87.4 mbpd, that's 1.2 mbpd of new production that has to come online each year.

Repeat—that's 1.2 million barrels of daily production that must come online, to meet rising demand.

And that's just the conservative estimate. The reality is far worse. Even in a global recession, oil demand is exploding. It shot up 1.82 mbpd last year alone.

And while demand is soaring—even as massive new supplies are desperately needed—global production has been flat.



After a century of near-continuous growth, global oil production plateaued in 2005. It's hardly budged in five years, even as demand has ballooned by 3.26 million bpd.

Oil companies have desperately tried to increase production, but they've failed. One

reason is because most new finds are small and difficult to work. Another reason is because they're fighting...

Massive Production Declines

Yergin doesn't touch this topic at all.

I'm not surprised. It's the nail in the coffin for the Pollyanna case.

As I've discussed before in *GEA*, oil fields don't produce at a constant rate until they're drained. When an oil field is fresh and pressurized, production is high. As pressure is reduced, production rates sink and decline.

Artificial field-pressurization, drilling additional wells, and other techniques can slow this down, but they can't stop it. On average, oil fields lose about 5 percent of production each year.

Five percent of 82.1 mbpd equals 4.1 mbpd of production loss each year. Put another way, energy companies have to add 4.1 mbpd of production each year just to maintain the status quo.

Oil executives are running on an enormous hamster wheel here. They have to find 4.1 million barrels of daily production *just to stay in place*.

Add this to rising demand of at least 1.2

Useless Oil

Pollyannas like to quote optimistic figures about how much oil is left in the world.

What they fail to mention is that much of this crude is so expensive to extract and transport that it won't be produced until oil prices reach agonizing levels.

The proposed MacKenzie River gas project is a good illustration of energy costs today. This pipeline will feed natural gas from Alaska to the tar sands in Canada (which have a ravenous appetite for gas. It's necessary to melt the tar). The pipeline will cost an estimated \$16 billion. That's on top of the \$5.8 billion that will be required to develop the three fields to supply it.

In other words, the MacKenzie project consortium (a partnership of four oil companies) needs to write a \$21 billion check just to get *started* producing gas. You need a whopper of a deposit to justify these sorts of costs.

Costs for many other projects are even higher. TransCanada is considering a pipeline from the North Shore to Alberta that will cost up to \$41 billion all by itself.

My point: many known deposits are not being developed today because at current prices, they wouldn't be profitable. Oil prices will need to soar up to painful levels before this crude becomes available to the market.

Not only that, rising costs can halt production even while the field still contains lots

of oil. Again, this reduces the amount of oil available to the market.

For example, parts of the trans-Alaska pipeline are decaying rapidly. The pipeline was designed to move large amounts of warm oil (it's hot when it comes out of the ground). In the past, the pipeline has moved as much as 2.1 million bpd. Its design requires a minimum of 600,000 bpd to function reliably.

But as North Shore fields have aged, production rates have fallen. Last year's average pipeline flow was only 589,000 bpd.

At this low flow rate, the oil moves slowly, and cools rapidly. Below 75 degrees, wax starts to precipitate out of the oil. As it cools farther, water separates out and then freezes.

Today, the pipeline is plagued with wax and water ice clogging up its valves, pumps, strainers, instrumentation connections, and so on.

Thus, as North Shore oil production has declined, transportation costs have soared. Sometime soon it will cost more to ship the oil than the oil itself is worth.

At that point, production will *stop*... until oil soars up high enough to justify the costs once more.

Again, we see that the world isn't running out of oil. We're running out of *cheap* oil.

Even the oil that used to be cheap is getting more expensive.

mbpd (which we just saw is overly conservative), and you get 5.3 million barrels of new daily production that's needed each year.

Where will this oil come from? Even the Pollyannas admit this is a staggering amount

Portfolio Update

In Update #1201, we issued instructions for subscribers who hedged Energy Exploration and Production ETF (symbol XOP). We rolled up our Nov. \$37 calls (symbol XOP111119C37) to the Dec. \$37 calls (XOP111217C37).

In Update #1204, we noted that some of our option contracts would be assigned. On Provident Energy (PVX), our Oct. \$8 calls (PVX111022C8) were assigned. Our total returns were 46.5%. On Whiting Petroleum (WLL), our Oct. \$50 short puts (WLL111022P50) were assigned. Our cost basis was about \$48.05.

In Update #1205, we issued instructions for subscribers who own Whiting Petroleum (WLL). We sold the Dec. \$45 calls (WLL111217C45).

In Update #1206, we rolled up our hedges on Apache Corp. (APA) and EOG Resources (EOG). On APA, we rolled up the Nov. \$75 calls (APA111119C75) to the Dec. \$75 calls (APA111217C75). On EOG, we rolled up the EOG \$75 calls (EOG111119C75) to the Dec. \$75 calls (EOG111217C75).

In Update #1209, we issued instructions on SandRidge Energy (SD). We took quick profits on our Dec. \$6 puts (SD111217P6). We also sold to open the Dec. \$6 calls (SD111217C6).

In Update #1210, we took profits on Occidental Petroleum (OXY). We bought to close our short Nov. \$90 puts (OXY111119P90). We took in a total of \$397 and paid \$217, for a profit of \$180.

In Update #1214, we issued hedge instructions for subscribers who own Provident Energy (PVX). We sold the Dec. \$8 calls (PVX111217C8).

In Update #1217, we issued a new short put recommendation on Suncor (SU). We sold the Dec. \$28 puts (SU111217P28).

of oil, and conventional discoveries are grossly inadequate. Nevertheless, they're not worried. They claim that unconventional oil will save us.

So let's spend a moment on...

Debunking the Unconventional-Oil Myth

Yergin says that "a major reason for continuing growth in petroleum supplies" is all the new unconventional deposits we're finding, such as the "vast oil sands of Canada, and the oil locked in shale and other rocks in the US."

Pollyannas such as Yergin like to point to unconventional oil sources like these to justify their optimism. But these sources are technically challenging and slow to produce. They're also tremendously expensive.

The popularity of these sources actually supports the case for peak oil. Oil companies wouldn't pursue them if cheap conventional oil sources were available.

A barrel of light sweet crude from a good onshore well costs up to \$60-\$70 to produce. A barrel from a new deepwater well costs \$70-\$80. A barrel from a tar-sands pit or a 'heavy oil' deposit costs \$90 and up.

As the *Wall Street Journal* noted in an article about offshore wells, "Big Oil never wanted to be here, in 4300 feet of water far out in the Gulf of Mexico, drilling through nearly five miles of rock. It is an expensive way to look for oil." But expensive oil is the only kind that's left.

No longer can a driller puncture a hole into a patch of American prairie and catch oil as it gushes out. Those days are gone.

Today, energy companies are being forced to mine frozen tar in Canada, and pump steam into sludge deposits in Venezuela, and grind up greasy rocks in Colorado.

These processes are all very expensive. So is the oil that's produced.

Pollyannas like to say that the market will fix the problem—that rising oil prices will

make unconventional oil more attractive, and economies of scale will bring prices down. But that's only partially true.

The problem here isn't just economics—it's physics. Unconventional oils require huge amounts of energy to process. As the price of oil goes up, so does the cost to process and produce the alternatives.

That's why many unconventional oil sources have remained non-viable, even as crude has soared.

Somehow, Yergin forgets to mention all this. He does however appeal to another new development:

"In 2003, the Bakken formation in North Dakota was producing a mere 10,000 barrels a day. Today, it is over 400,000 barrels, and North Dakota has become the fourth-largest oil-producing state in the country. Such 'tight' oil could add as much as two million barrels a day to US oil production after 2020—something that would not have been in any forecast five years ago."

Again we must ask: two million barrels of *what*? It turns out that much of the Bakken's production is NGLs (natural gas liquids). Again, these aren't substitutes for oil.

Also, the Bakken formation requires 'fracking' (hydraulic fracturing) to make its wells viable. This technique is notable for the short peak-production times of its wells. The wells produce at high rates for a little while, then production falls off a cliff.

Plus, fracking is coming under increasing attack from environmentalists and ranchers & farmers (unlikely bedfellows, but united in this cause). Fracking requires large-scale high-pressure pumping of nasty chemicals deep underground. This can contaminate groundwater, or outright destroy regional water wells.

As I Write This...

...the looming implosion of Italy is the front-page headline in the *Wall Street Journal*. I warned you back in August that this was coming. This is one of the reasons we're so profitable as an investment service—*GEA* readers often get warned months in advance about market-moving events.

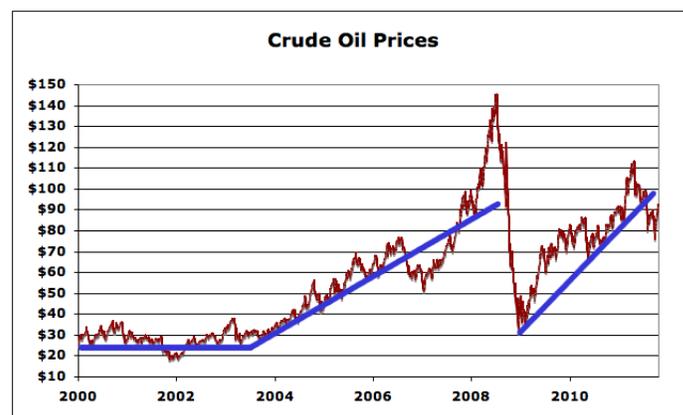
If the opposition has its way, fracking will be banned. Many oil fields will lose their viability overnight—including the Bakken.

Despite all these problems and risks, unconventional oil is supplying a growing portion of America's energy needs. This is not the sign of a healthy industry, as Yergin claims. It's the sign of an industry that can't get oil any other way.

Another evidence for this is seen in petroleum's...

Long-Term Price Trends

Between 2003 and 2008, oil rose by almost \$15 per barrel each year. Then it got gut-punched by the financial market crashes, and it nose-dived too.



But that was temporary. Even in the middle of a grinding recession, it started climbing again.

So far, it's actually a sharper trend now than before.

Again, this all took place in the middle of a global financial panic that was the worst in generations. Now imagine what will happen when the panic and fear subside. Imagine what will happen when the world remembers that oil demand is already overwhelming supply, and demand grows larger every year.

Imagine what will happen when the markets remember that there are no viable substitutes in sight, and the crude that's left is very expensive to produce.

How high will oil prices go? We don't know yet, but it will be exciting to find out.

And that brings up another question. Since we expect oil prices to leap...

What are we going to do about it?

You've probably seen in recent *Updates* that I'm preparing to start a new *GEA* portfolio to take advantage of market conditions.

This will only be the third portfolio in *GEA*'s history. (This alone is an indication of how big I think this opportunity is.) The first two had spectacular results, and I have every reason to expect the same or better for number three.

To recap: the first *GEA* portfolio turned \$51,982 into \$127,005 in exactly six years. We made over 144 percent—almost two-and-a-half-times your money. That's an annual average of over 24 percent, despite a huge plunge in the markets during that time.

This portfolio included some massively profitable trades, like 2,111 percent gains (!) in Anadarko Petroleum... 131 percent gains in ConocoPhillips... 206.74 percent gains in Transocean... 151% gains in Suncor... 186.5%

gains in Apache Corp... and many more.

When you consider the timing, the second portfolio did even better than the first. As of our mid-year report this summer, the *GEA 2* portfolio had made over 96 percent in just 33 months.

Where else could you almost double your money in less than three years—especially during one of the worst markets in recent history?

Both portfolios had spectacular results. Now we're preparing to do it again with *GEA 3*.

Not only am I looking forward to energy stocks shooting up again, the ongoing roller-coaster ride in global financial markets should make us lots of money too. (Remember, our unique option strategies allow us to make money when stocks go down as well as up.) Some of the timing will be tricky, so be sure to follow my recommendations closely in the regular email *Updates*.

I expect 2012 to be very profitable for us. Get ready for a great ride!

Get Two Complimentary Ronald Reagan Commemorative Coins

Genuine United States Coins: A \$59.90 Value

31 years ago this month, Ronald Reagan was elected as the 40th President of the United States. His leadership not only brought America to a new level of prosperity, it also caused the downfall of the Soviet Union's "evil empire," and ushered in a new era of peace around the world.

This month is also the 12th anniversary of the historic opening of the Berlin Wall—the stirring fulfillment of Reagan's famous challenge: "Mr. Gorbachev, tear down this wall!"

To commemorate these events, I'm offering two Ronald Reagan half dollar U.S. coins as complimentary bonuses when you renew or extend your *GEA* subscription for three years.

These are Kennedy half-dollars, issued by the U.S. Mint in 2004, and colorized in four colors with President Reagan's portrait by the Morgan Mint. These coins are officially sanctioned by the Ronald Reagan Presidential Foundation.

Each coin comes with a certificate of authenticity, deluxe box, and protective hard-plastic holder.

These beautiful coins make great Christmas gifts. I'm offering two so you can offer both as gifts,

or give one as a gift and place the other into your own collection, in remembrance of one of our greatest Presidents.

These coins sell for \$29.95 or more, but (while my supply lasts) you'll get two coins at no extra charge when you renew for three years for \$189.

I only have a small supply of these coins, and they'll go fast. [Click here to claim your Reagan Half Dollar Coins.](#)



Actual coin size 1.2" diameter

