THE HIGH-TECH STRATEGIST

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Protect Yourself

Ten years ago, in late summer of 2002, I started aggressively building my gold positions, writing in newsletter #177 that it was "a bet on the end of the 20-year bear market in gold. It is a bet on an anticipated plunge in the U.S. dollar. It is a bet against Greenspan and the Fed, who I fear will flood the system with money as the stock market and economy continues to contract. It is a bet against undisciplined fiscal spending and budget deficits." Little did I know then, that 120 monthly newsletters later, the need to protect myself from the same evil forces would be greater than ever.

Last month Greenspan's replacement, Ben Bernanke, pulled out the big bazooka – unlimited quantitative easing (money printing) - and promised to keep firing it until the persistently high U.S. unemployment rate is reduced to some unspecified lower level. Under this new, open-ended money printing plan (QE3), the Fed will purchase $40 billion of mortgage-backed securities every month until it reaches its goal. The vote was 10 to 1 in favor (where did all the "hawks" go?).

The $40 billion per month is just for starters. According to the Fed's September 13th statement announcing the changes: "If the outlook for the labor market does not improve substantially, the (Fed) will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ other policy tools as appropriate until such improvement is achieved in a context of price stability." *The Wall Street Journal's* primary Fed-watcher, Jon Hilsenrath disclosed further details of the plan last Friday: "Activists (on the Federal Reserve Board) got what they most wanted: an open-ended commitment to buy mortgage bonds until the job market improved, with the strong possibility of additional Treasury purchases later. Fence sitters got a promise to review the plan before deciding to proceed with a bigger program in 2013."

That sounds to me that unless some miracle happens and the sick global economy magically improves in the next few months, QE4 (Treasury purchases) will be announced, likely before the end of the Fed's Operation Twist program in January. Additional Treasury purchases in 2013 would effectively have the Fed funding much of the federal government's massive trillion dollar plus annual budget deficit (with money created out of thin air), just as it had done in fiscal year 2011, when it bought 77% of all the debt issued by the Treasury Department.

That's what's called "monetizing" the debt. Monetizing debts encourages the incurrence of even bigger deficits and debts. It allows the President and Congress to "kick the can down the road" – just as they have been doing all these years. By monetizing debts, the Fed enables the continuation of the government's undisciplined fiscal deficit-spending ways. In recent years, the U.S. government has become completely dysfunctional and the Fed's utilization of its bazooka will not help matters. The last Federal budget passed by Congress was in April 2009. This year Congress didn't pass any of the 12 spending bills required to fund the federal government. In order to keep the government running, President Obama last Friday signed a continuing appropriation resolution to provide funding for the federal government through March 27, 2013. This is no way to run a government.

In 2002 I was buying gold to protect myself "against undisciplined fiscal spending and budget deficits." At the time, the 2002 budget deficit was $158 billion, not the $1+ trillion deficits that we've been running for the past four years, and that the U.S. government is projected to run as far as the eye can see. In 2002 I was worried about a $6 trillion national debt. Today that debt is nearly $16.1 trillion - and rising rapidly.

At the September 13th meeting, the Fed also said that it now expected to keep short-term interest rates near zero through at least mid-2015. In 2002 Greenspan was suppressing short-term interest rates to just under 2% (and eventually to 1% by 2004). In 2002 I was buying gold to protect myself from the theft of my savings as my cost of living (inflation) exceeded the interest I could earn on risk-free short-term investments (Treasuries, money-markets, CDs). Now I need a huge gold position to protect my savings from the ravages of what will be nearly eight years (2008-2015) of nearly zero percent short-term interest rates, even as my expenditures for food, insurances, taxes, gasoline ($4 a gallon today versus the national average of

$1.36 a gallon for regular gas in 2002), medical expenses, and college tuitions continually rise at rapid rates. For savers, this is government thievery. For debtors, it is nirvana.

Of course, the biggest debtor in the world is the deadbeat U.S. government. Thanks to the Fed's actions to suppress interest rates, the U.S. government is able to continue to borrow and pay the same amount of interest (a little over $200 billion in net interest payments) that it had to pay in 2007, even though the national debt is $7 trillion (nearly 80%) higher. Imagine being able to go on a wild credit card spending spree and not have to make any additional payments to the credit card company. That's what Uncle Ben (Uncle Sugar) is providing to the federal government today. As we know, there are no free lunches. Someone is paying. That someone is anyone that owns government bonds (U.S. savers, the Chinese etc.) and anyone whose incomes cannot keep up with the real (not the phony government-calculated "core") rate of inflation.

And that would be nearly everyone in this country except for those who have the ability and know-how to protect themselves from this government's larceny.

For more than a decade (it didn't become clear to me what the Fed was up to until 2002) the Fed has been playing this game of all-powerful monetary God in which it manipulates interest rates and prints trillions of dollars – all in the name of its just cause – its employment "mandate." In addition to the debts and deficits and $4 a gallon gasoline, the results have been massive bubbles (tech, real estate, credit, bond market) and busts, the worst recession since the Great Depression, the worst "recovery" from that recession (if you want to call it that) in history, persistent unemployment, a youth unemployment crisis, the lowest labor participation rate in this country since 1981 (in the depths of that terrible 20% interest rate inspired recession), a "Food Stamp Nation" of 47 million Americans and four straight years of declines in the typical US household family income to a level not seen since 1995 (per US Census Bureau household income for 2011 released last month).

Thanks to the Federal Reserve's machinations, the wealth inequality gap keeps widening and the current Presidential election campaign has devolved into a class warfare debate (from the Democrat it's the "99% versus 1%," from the Republican it's the 47% of Americans not paying federal income taxes), rather than the sorry state of affairs described above.

Mad World

I find little consolation in having been right on my predictions about Bernanke's next steps, to have gold up more than 13% this year (a 12th consecutive annual gain) and to have my hugely overweight precious metals portfolio on track for another double-digit up year. For I am worried about the future. I am worried about how the Fed ever could extract itself from such a mess. I am worried about the eventuality of soaring interest rates and its effects on the economy and government financing. I am worried about inflation and the more unlikely prospect (for now) of hyperinflation. I am worried about how this financial debacle we're approaching could accelerate the unraveling of social cohesion. Most of all I'm worried about the prospects for my two sons, Ryan and Andrew, both of whom are still in college, though Andrew is very near graduation. Andrew has a close friend (a quality kid!) who graduated last May from the University of New Hampshire with a very high GPA who, like half of the recent graduates in this country, cannot find a job in his field – or any job for that matter. And this is during the "recovery."

As I write this letter I've been hearing the chorus of the haunting (but very popular) song "Mad World" playing in my head.

I find it hard to tell you
I find it hard to take
When people run in circles
It's a very, very
Mad World
Mad World

Sometimes I wish I could be oblivious to our current situation, especially when I watch the idiots on Bubblevision (CNBC) enthusiastically debate the relative merits of equally overvalued momentum stocks (Should I switch out of Apple into Google or Amazon.com?). But then I snap out of the funk as I realize my focus has to be on what I can control – not what I cannot. I'm writing this very sobering piece because it's important to understand the reality of today and not to get lost in the various escapist pursuits that so many of our countrymen appear to be lost in.

Ray Dalio, head of the $120 billion hedge fund Bridgewater Associates, and one of the most successful hedge fund managers ever, was interviewed a couple of weeks ago by CNBC's Maria Bartiromo at the Council of Foreign Relations. When Bartiromo asked Dalio whether he owned any gold he responded: "Oh yeah. I do. I think anybody, look let's be clear, that I think anybody who doesn't have...There's no sensible reason not to have some. If you're going to own a currency, it's not sensible not to own gold. Now it depends on the amount of gold. But if you don't own, I don't know 10%, if you don't have that and that depends on the world, then there's no sensible reason other than you don't know history and you don't know the economics of it."

I know my Barron's Roundtable "January friend" Bill Gross, founder and co-chief investment officer of giant PIMCO (with nearly $2 trillion in assets under management) has recently been promoting gold too. While searching for a quote from the "Bond King" I discovered that his latest (October) Investment Outlook commentary titled: "Damages" was just released today.

It is a powerful piece. A couple of snippets:

"Well, Armageddon is not around the corner. I don't believe in the imminent demise of the U.S. economy and its financial markets. But I'm afraid for them. *Apparently so are many others, among them the IMF (International Monetary Fund), the CBO (Congressional Budget Office) and the BIS (Bank of International Settlements). I hold on my lap as I write this September afternoon the recently published annual reports for each of these authoritative and mainly non-political organizations which describe the financial balance sheets and prospective budgets of a plethora of developed and developing nations. The CBO of course is perhaps closest to our domestic ground in heralding the possibility of a fiscal train wreck over the next decade, but the IMF and BIS are no amateur oracles – they lend money and monitor financial transactions in the trillions. When all of them speak, we should listen and in the latest year they're all speaking in unison.* ***What they're saying is that when it comes to debt and to the prospects for future debt, the U.S. is no "clean dirty shirt." The U.S., in fact, is a serial offender, an addict whose habit extends beyond weed or cocaine and who frequently pleasures itself with budgetary crystal meth. Uncle Sam's habit, say these respected agencies, will be a hard (and dangerous) one to break."***

Note that up until recently, Bill had argued that it was safe to invest in the U.S - as the U.S. was the "cleanest dirty shirt" in the laundry compared to the rest of the world's major developed financial markets. Clearly, he's had a change of heart. We are now mostly on the same page and I agree with many of his "Investment Conclusions" at the end of his October piece:

"So I posed the question earlier: How can the U.S. not be considered the first destination of global capital in search of safe (although historically low) returns? *Easy answer: It will not be if we continue down the current road and don't address our "fiscal gap." IF we continue to close our eyes to existing 8% of GDP deficits, which when including Social Security, Medicaid and Medicare liabilities compose an average estimated 11% annual "fiscal gap," then we will begin to resemble Greece before the turn of the next decade.* ***Unless we begin to close this gap, then the inevitable result will be that our debt/GDP ratio will continue to rise, the Fed would print money to pay for the deficiency, inflation would follow and the dollar would inevitably decline. Bonds would be burned to a crisp and stocks would certainly be singed; only gold and real assets would thrive within the "Ring of Fire.""***

The quibble I have with this is that I'm not so sure that Armageddon is not around the corner. I don't think anyone really knows just when it might occur. Our debts are already historic (unprecedented levels). The debt/GDP ratio is on the rise and nearing dangerous levels. The Fed has been playing with fire for more than a decade. It's not a hypothetical that the Fed *would* print money to paper over the deficits – they have already been doing that for some time, and now, in desperation, have resorted to a more extreme form of printing – "infinite" QE. Inflation for the average U.S. consumer has followed and has resulted in lower real incomes and a lower standard of living. The dollar has sharply fallen against commodities such as oil, gold (dramatically), and the foreign currencies of countries with central banks that are not printing money. We may be further down the path toward Armageddon than Bill knows.

The only reason the dollar still appears to be strong is that it's typically compared against other dirty shirts; such as the euro, the British pound and the Japanese yen. Since 2001, the Bank of Japan (BOJ) has engaged in at least eight rounds of QE and their economy is still in distress. Just one week after the Fed announced its latest QE program, the BOJ announced a $127 billion increase of its current QE program to approximately $1 trillion and extended the program by six months until the end of 2013. Japanese politicians are pressuring the BOJ to do even more and last week the BOJ hinted at it.

Depending on how you count them, the Bank of England (BOE) is on QE round four or five totaling to over $600 billion. Recall in last month's letter BOE governor Mervyn King crowing that central banks around the world "have done a massive amount (of money printing). This has been an extraordinary period of monetary stimulus never seen before and we've still got the foot to the floor." The BOE is expected to increase its QE program again by the end of the year.

In the first week of September, European Central Bank president Mario "Super Mario" Draghi announced his new money printing plan named: "Outright Monetary Transactions" (OMT). This was called Draghi's "bazooka," with the central bank buying up potentially unlimited amounts of Spanish and Italian government bonds in order to lower (suppress) those countries' interest rate payments.

European governments responded to the ECB's largess as one would expect after the introduction of a new "moral hazard." Italian Economy Minister Vittorio Grilli declared that Italy would not take any further deficit-cutting measures. Spanish Finance Minister Luis de Guindos "appeared to draw a line against new spending cuts," according to *The Wall Street Journal*. "Spain's existing (budget) measures are significant and ambitious enough," Grilli said. They only became significant and ambitious enough after Draghi announced his unlimited bond buying plan. Prior to that, virtually no one wanted to buy Spanish bonds. Portuguese Prime Minister Pedro Pasos Coelho dropped a plan to increase workers' contributions to social security. Why take pain when others will bail you out by printing money? It's exactly what's happening in the U.S. The Fed's QE programs have taken the pressure off the U.S. government to do anything about the deficits and mounting debts.

According to JP Morgan Chase economic research, since 2009, the ECB, Fed, BOE and BOJ have injected $3.9 trillion of largely newly printed money into the world's financial system – and that's before the latest "unlimited" programs introduced last month by the Fed and ECB.

In the past when the world was on a gold standard governments could not print money to finance deficits like this – all the gold would leave the offending countries, forcing necessary changes. In the past when a country not on the gold standard began wildly printing money, its currency would collapse against other more responsible countries' currencies, eventually forcing changes. Today's situation is far more pernicious. Almost all the major developed countries are printing money concurrently, so that none of the currencies collapse against the other. The central banks are engaging in competitive debasement and currencies only fall against the currency where there's no artificial increase in supply – gold. Over the last ten years the U.S. dollar has lost nearly 85% of its value in gold terms. Against a barrel of oil, the U.S. dollar has lost approximately 75% of its value. A barrel of crude oil averaged $22.81 in 2002. It's now $92 (West Texas) and $111 a barrel (Brent).

While we aren't yet suffering in Bill Gross's inflationary "Ring of Fire," we're getting too close for comfort. As Bill concludes in his recent outlook - in the "Ring of Fire, "bonds would be burned to a crisp and stocks would certainly be singed; **only gold and real assets would thrive**."

Last week central bankers from China and Korea met and "blasted" the Fed's (and other central banks') latest QE plans. They suggested it could cause them to speed up their search for alternatives to the U.S. dollar. Bank of Korea governor Kim Choong-soo: "Therefore, Korea and China need to make concerted efforts to minimize the negative spillover effect (from raw-material price inflation) arising from the monetary policies of advanced nations." Recently China became the largest buyer of gold in the world, with a significant, but undisclosed, amount of the purchases coming from the government itself. Last month the International Monetary Fund reported that South Korea raised its gold holdings by nearly 18 tons in July. In less than one year, South Korea has doubled its gold holdings to over 70 tons. Korea was one of the largest purchasers of gold in 2011.

The criticism from the Koreans and Chinese was subdued compared to what German Bundesbank President Jens Weidmann had to say about Mario Draghi's Outright Monetary Transactions plan. Last month he compared it to "the scene in Faust, when the devil Mephistopheles, 'disguised as a fool,' convinces an emperor to issue larger amounts of paper money," which eventually led to an inflationary spiral and civil chaos. Weidmann complained bitterly about the "potentially dangerous correlation of paper money creation, state financing and inflation."

The Wall Street Journal had an interview last weekend with Mexican President Felipe Calderon in which, according to the interviewer, "he strikes a skeptical note about the current fashion of trying to stimulate the economy through measures like the U.S. Federal Reserve's rounds of quantitative easing." "The paradox is that with a monetary measure (taken) in order to expand the economy, you are provoking some kind of increase in (the price) of commodities. So you are getting a recessionary measure," Calderon said. In other words – QE doesn't work. The Mexican central bank has also been accumulating large amounts of gold in its reserves recently. Do as they're doing – protect yourself.

Bernanke believes that he can print money and target the purchases so that just the "right" kind of inflation (asset inflation) is created. Bernanke explained what he's trying to do in his press conference last month.

"We are trying to create more employment. We are trying to meet our maximum employment mandate, so that is our objective. Our tools involve, I mean the tools we have, involve affecting financial asset prices and those are the tools of monetary policy. There are a number of different channels - mortgage rates, I mentioned corporate bond rates, but also prices of various assets, like for example the prices of homes. To the extent that home prices begin to rise, consumers will feel wealthier, they'll feel more disposed to spend. If house prices are rising people may be more willing to buy homes because they think that they will make a better return on that purchase. So house prices is one vehicle."

"Stock prices, many people own stocks directly or indirectly. The issue here is whether or not improving asset prices generally will make people more willing to spend. One of the main concerns that firms have is there is not enough demand, there's not enough people coming and demanding their products. If people feel that their financial situation is better because their 401(k) looks better for whatever reason, or their house is worth more, they are more willing to go out and provide the demand."

Bernanke's comments should send shivers up your spine. This is outright manipulation of house prices, bond prices and stock prices! Whatever happened to our free market? This may sound good on paper to the central planners, but in the real world Bernanke's crude tools (QE programs), by inflating asset prices, have created more wealth for the already rich and more consumer inflation and lower real incomes for everyone else. That's just one of the many negative unintended consequences of QE (see page 2). To date, QE hasn't worked as planned – so Bernanke's solution is… More. I can't say it enough – Protect yourself!

"Trimming" Into Strength

Ray Dalio recommends having a 10% position in gold (unless you don't know history and you don't know economics). That seems to be very sage advice. For almost all of the past decade I have had many multiples of that in my portfolio in gold and gold stocks. While not for everyone (or for very many other people), this high concentration was the only way I could sleep well at night. In last month's letter I told you that I "threw what was left of my available cash into the gold stock segment" in August. This was a special circumstance as I was anticipating the extreme actions from the Fed and ECB, which did come to fruition. I also said: "If we get the QE announcements from the ECB and Fed as I expect and gold spikes further, driving sentiment to high levels, I may trim some of my gold stock positions back ahead of October, which is typically a weaker month for gold."

Luckily, it all played out as I had forecast and I did trim in two consecutive weeks in the second half of the month. In both cases, I tweeted on Twitter that I was doing it (September 17th and September 24th). As of now, I have between 15% and 20% in cash (money market accounts) providing me with some flexibility to buy into any weakness, should it occur. Going into the Fed and ECB meeting, I had one of my largest (if not the largest) percentage of gold and gold stocks in my portfolio ever.

Long-time readers know that I have sold into strength (euphoria) and bought into weakness (panic) on several occasions throughout this long secular bull market for gold. Since I've always kept a very large "core" position, I have never worried about missing a big upward move. It puts me in a "no lose" situation emotionally. If gold stretches higher, I win. If it sells off, I get to buy what I want to own at lower prices.

The specific stocks that I sold are not that important, as many of my gold stock sales were chosen for tax reasons. If the Bush tax cuts expire next year on schedule and the additional Obamacare investment tax (an additional 3.8 percentage points) hits, my long-term capital gains tax rate will rise by 59% next year. My federal tax rate for short-term investment gains will be over 43%. As I've noted before, I have been positioning to minimize my tax payments in 2013, by accelerating income (long-term gains) into this year. The spike-up in my gold-related positions in August and September (gold soared nearly $200 an ounce and some of my gold stocks roared higher for seven to nine consecutive weeks (my biggest gold stock positions were up 35% to 50% over that period) provided a window of opportunity to lock in long-term gains. I am trying to make sure I do not sell positions until they're long-term.

In addition to the big moves in a short period, there were several signs of excess that got me worrying. The "Wrong-way Corrigans" at CNBC seemed to take a liking to gold after months of hating on it. I saw a teaser for a story they were going to run called "$2000 Gold by Year-end." Another mid-September CNBC story: "Gold on a Tear – Why It's the Hot New Trade." The Hulbert Gold Newsletter Sentiment index (HGNSI), after months of wallowing in negative territory (meaning gold newsletter writers were recommending net short positions), soared to nearly 70% - a level that has seen corrections in the past. Technicians (momentum guys) at Bank of America/Merrill Lynch put out a piece last week called "The secular bull case for gold 3000." A Citibank analyst upped his gold price target to $2450-$2500 by Q1 2013. A Morgan Stanley survey of 140 institutional U.S. investors found gold sentiment at its highest bullish reading since July 2011 (a big sell-off began in August 2011 and continued into September).

In the recent weekly Commitment of Traders (COT) reports, the net speculative long position rose to its highest level since last February (just before a steep, three-month sell-off in gold). Small speculators showed their largest net long position on record. Futures and option traders raised their long gold bets by 78% from mid-August to last week. Earlier in the year, *Investor's Business Daily* (IBD) had precious metals stocks ranked second lowest out of 197 industry groups. Precious metals stocks leapt to IBD's second best performing group recently. From experience, I've found that these hot money traders are bad company. When they're piling in, I sell. When they're panicked, I buy. One of these times when I trim I will be wrong. For in the coming great gold bull market blow-off, none of my sell criteria will matter. I will be very happy if this is the moment (though I doubt it). Reverse some of these sentiment indicators, and I'll be ready to put some of my cash back to work later this month or in early November.

I wouldn't be surprised to see a "surprise" improvement in this Friday's unemployment report, given how close we are to the presidential election. Such an "improvement" might be seen as a negative by gold traders (worries that less QE may be needed). Another negative catalyst for gold could be a narrowing of President Obama's polling lead around the debates. An Obama victory in November would likely cause a surge of gold (and gun) buying.

Tech Stocks

Tech stocks aren't very interesting at the moment. With the exception of a small percentage of story stocks in the social networking, cloud and Big-data areas that remain highly overpriced, most tech stocks are mired in a long, secular bear market. Before the bear market ends, the high-priced story stocks will come crashing to earth too. There will likely be a large number of earnings misses/guide-downs from the tech sector this month due to the worsening recession in Europe and the slowdown in Asia (especially China). No sector has more overseas exposure than tech. In contrast, gold stock results should be excellent, driven by the sharply rising gold price in the quarter.

My lone long tech position is Microsoft and I even cut that down (by 40%) last month (booking a long-term gain) in front of what should be a tough earnings reporting period for tech companies and especially for those with PC exposure. Microsoft is expected to report results on October 18th. After that comes the release of Windows 8 products on October 26^{th}. Though I'm cautiously optimistic, it remains to be seen how the new products will be received. There could be some early glitches. Windows 8 is a major upgrade and will likely cause some consternation among the Windows user base.

Tech industry darling Apple saw a lot of glitches with its new iPhone 5 release last month. As the result, the stock peaked and has rolled over, much to the dismay of the Apple fanatics, who were expecting Apple's stock to keep marching to their $1000 targets. The severe supplies shortages (displays) look like they will remain a problem at least through year end, limiting upsides to Apple's results. Initial weekend shipments were well short of forecasts (as much as 50% of some estimates). This problem has sullied CEO Tim Cook's reputation as an operations supply chain wizard. Other problems with the phone are the poor mapping software that replaced Google maps, ergonomics of the phone (light and slippery), small screen size relative to the competition, weak camera, an adapter issue, the dropped native YouTube app, the Siri voice response application still providing a large percentage of wrong or ridiculous answers (up to a third of all queries), no near-field communications capability and more.

I've heard from a number of long-term Apple fanboys who are pretty disgusted. There's murmuring that if Steve Jobs was still alive, he never would have released a product with such flaws. At least a couple of them have made the decision to move to the Android alternatives. Samsung, which is now in an all-out war with Apple, came up with a really effective commercial "The Next Big Thing is Already Here." The ad poked fun at the Apple fanatics standing in line for their iPhones while pointing out many of the new iPhone's major flaws and Samsung's Gallery S III's advantages. According to *Advertising Age*, the ad jumped to number one on the Viral Video Chart, beating out Apple's ads for the new iPhone 5. Apple should get a lift from the expected shipment of the smaller form factor iPad Mini (possibly in late October) and Apple will still sell a ton of iPhone 5s over the next couple of quarters, making a short position difficult; but after that – Apple's stock could be very vulnerable.

With their favorite momentum stock no longer leading the way, tech bulls such as Jim Cramer have been trying to anoint Google as the new momentum star. However, that will not likely go far. They've run up Google's stock forgetting that unlike Apple, Google tends to miss earnings estimates frequently due to out-of-control spending, and maturity of the search market. The move to smaller mobile screens from PCs lessens advertising opportunities and Google this quarter takes on a full quarter of the low-margin Motorola hardware business they recently acquired. Google is no Apple. If Google's stock remains aloft, I may buy short-term put options in front of Google's results later this month.

Unlike the previous two months, September was a very light month for earnings reports from tech companies. It was a big month for QE developments, thus the focus of this report. Next month's letter will be chock full of tech earnings results discussions.

I do not own any IBM put options. IBM has a big one-time gain from the sale of a business that fell into Q3. The recent drop in the dollar eliminated most of the currency drag on revenues and orders. IBM has begun a new mainframe product cycle which will help its hardware results. There will be a better opportunity to buy put options on IBM at a later date.

Oracle reported pretty soft quarterly numbers last month but the stock sold off a just a bit, proving that rising QE is difficult to short against. Oracle missed top and bottom line estimates. Revenues fell 2.3% year-over-year, mostly due to plunging hardware sales (the old Sun Microsystems business). Hardware product sales dropped 24%, continuing the string of weak computer sales results from the likes of Hewlett-Packard and Dell.

Two other software companies, Red Hat and Tibco reduced revenue estimates for the current quarter when they reported results last month. Tibco also missed third quarter estimates. According to Red Hat CFO Charles Peters on the conference call, Red Hat saw weakness in its services business. "In a slower macroeconomic situation, the training side may be an area where travel and training is cut a little bit," Peters explained.

Intel and Texas Instruments, the two largest U.S. semiconductor makers both lowered Q3 estimates last month. Intel warned of a huge $1 billion or more revenue shortfall, reflecting the very weak PC market. Intel saw slowing sales in two areas that had been sources of strength – emerging markets and business enterprise customers. On Texas Instrument's conference call TXN executive Ron Slaymaker acknowledged that "orders are soft this quarter and likely will be down sequentially from last quarter." Slaymaker noted weakness in all of its end markets: computing, communications (a large North American. telecom carrier "has, in fact slowed down its orders," Slaymaker said), industrial and consumer. The economic slump in China also hurt TXN's orders for communications infrastructure products.

Adtran is another company that issued a Q3 warning citing telecom carrier cutbacks. "Our performance this quarter continued to be affected by a challenging spending environment stemming largely from macroeconomic and regulatory concerns," said Adtran CEO Tom Stanton. "The largest impact continues to be in the U.S. carrier market where we saw continuing delays in project rollouts exacerbated by a decrease in legacy product sales."

These carrier cutbacks and reports of network enterprise spending slowdowns that I've picked up make me believe that Q3 earnings and Q4 guidance from a number of network and telecom equipment suppliers could be at risk. If one was to short, this would be a prime target area. Short targets could include Juniper Networks, F5 Networks, Ericsson, JDS Uniphase, Tellabs, Ciena and Cisco Systems. Cisco doesn't report results until early November. I bought put options on F5 Networks (FFIV) last month.

Strategy

As noted earlier, I'm looking for a sell-off in gold and gold stocks that will flush out some of the hot money traders who recently piled into the segment. I hope to be able to put my cash to work later this month or in early November. November is typically one of the strongest months for gold.

My biggest positions (by far) continue to be in precious metals (mostly gold-related). I continue to hold a substantial position in the shares of the Sprott Physical Gold Trust ETF (PHYS) and the iShares Gold Trust ETF (IAU). I also have smaller positions in the iShares Silver Trust ETF (SLV) and the ETFS Physical Platinum ETF (PPLT). I sold some of my platinum after the 23% surge in the price of platinum over just four weeks due to the South African mining strikes. I also hold physical gold. Silver has rallied 24% since the beginning of August. I also trimmed some of my silver ETF position back last month.

My biggest gold stock positions are in Agnico Eagle Mines (AEM), GoldCorp (GG) and Yamana (AUY). I have smaller positions in New Gold (NGD), AuRico Gold (AUQ) and Newmont Mining (NEM). I cut my Newmont position in half last month and sold all of my Barrick Gold (ABX) position. I have plenty of exposure to both in the GDX ETF.

I have a very large position in the Market Vectors Gold Miners ETF (GDX). I also have a sizeable position in the Market Vectors Junior Gold Miners ETF (GDXJ). I own a smaller position in silver miner Hecla Mining (HL). I continue to own shares in the Market Vectors Vietnam ETF (VNM). I still hold some high-quality, short-term corporate bonds, (HP and Pepsi). I own the iShares JPMorgan USD Emerging Markets Bond ETF (EMB). I also hold short-term Canadian and New Zealand government notes and bonds as another hedge against a falling US dollar.

Final Notes

We received several queries about the status of our new Costa Rican "Escape Hatch," after the major 7.6 earthquake and thousands of aftershocks that rocked the country last month. We were a bit concerned too, as our house was just 38 miles from the epicenter. However, the threat of earthquakes was known and I was looking for a structurally well-built house when I purchased it in late June. The house was built to California earthquake safety standards (the builder was originally from California) and we suffered no structural damage and only lost one vase. The building code throughout the country was very good, thus the damage was limited and there was only one death reported. The other good news is that the earthquake has relieved the pressure on the moving plates and so now the threat of another "big one" is much diminished.

As noted in last month's letter, the fax option was discontinued last month. The vast majority of subscribers who had the fax delivery option have been converted to the encrypted email option. If you received this by mail but were expecting a fax, then you can still contact us (via email at thehightechstrategist@yahoo.com) to convert to the encrypted email option. If we do not hear from you, or for some reason you cannot complete the registration process, we will add a month or two to your subscription end date if you have paid for fax in recent months.

This month we will also continue to process requests from subscribers who want to change their delivery method from mail to "email only." Please understand that you have to complete the steps (that we send to you) in order to register your computer with us. In this process, we are not registering email addresses; we are registering your specific computer. We will offer encrypted email to those who will want email delivery as well as hard copy mail delivery in upcoming months. For those that receive the newsletter by mail only and want to continue that way, nothing will change for you.

Note that we have changed our pricing slightly. A one year subscription via mail only to the U.S. and Canada is now $150. A one year subscription via mail to international subscribers is $185. Email only delivery for U.S. and Canadian subscribers is $140 per year, $175 for international subscribers. Mail and email delivery to U.S. and Canadian subscribers is $170. Mail and email delivery to International subscribers is now $205. We are still sending out invoices with the old pricing structure to subscribers with November and December renewal dates. Any subscribers with renewal dates in 2013 (starting with January renewals) will receive invoices with the new prices.

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One year subscription US & Canada: Email only delivery $140, Mail delivery $150. Email and mail delivery $170. One year subscription International: Email delivery $175, Mail delivery $185. Email and mail delivery $205. Send check or money order to: The High-Tech Strategist, payable to a U.S. bank. Three month trial: $60(US). To subscribe, please send your name, address and check or money order to: The High-Tech Strategist, PO Box 3133, Nashua NH 03061-3133

We have set up a PayPal account as an alternative payment option for our international subscribers. Upon request via thehightechstrategist@yahoo.com email address, we will electronically send an invoice through the PayPal system that will allow international subscribers to pay for a subscription via their own PayPal account or credit card.