

NEWS & VIEWS

January, 2001

Forecasts, Commentary & Analysis on the Economy and Precious Metals

Celebrating Our 28th Year in the Gold Business / Centennial Precious Metals / Since 1973 / www.usagold.com

“Sooner or later, the risks had to emerge. They did in 2000. . . The uncertainties and risks accumulate. They mock the promised calm of the New Economy. It cannot be said to have died, because it never existed. It was a mood, and almost without warning -- it has passed.” Robert J. Samuelson, *Washington Post*, 12/31/00

BACKGROUND: Mr. Samuelson echoes themes covered here in depth over the past few years. Our only surprise is that the whole New Age, New Economy, End-of-History bullet train to Paradise didn't derail sooner. We have emphasized in the past how gold offers portfolio protection against such recurrent maladies such as inflation, deflation, equity market crashes, systemic risk; political, social and economic breakdown, etc. Gold is not so much the road to riches as it is the best option available to protect what you have gained in other pursuits -- the stock market, one's profession and/or business among them. Those who balanced their equities portfolio with gold over the past few years, as recommended so often here, have done nicely by their diversification -- keeping at least a portion of their capital intact despite the worst stock market plunge since 1929. This happened, as we suggested it would, in both *The ABCs of Gold Investing: Protecting Your Wealth Through Private Gold Ownership* (1996) and in these monthly ministrations. Now I am beginning to consider, as some of you may have gathered in my recent writings, the potential for a bull market in gold. The theme of this issue is “Markets Cycle” and gold does so no less than any other. It just so happens that gold is the one primary portfolio asset that hasn't seen a big inflationary runup -- the one that's long overdue. I think we are rapidly coming upon *gold's turn*. The ducks are lining up in a nice, neat and historically satisfying row. We hope you enjoy and gain from our inaugural 2001 issue. MK

SHORT & SWEET “THE NASDAQ COMPOSITE INDEX CRASHED IN 2000, declining almost 40 percent.

You need to go back more than six decades to the Great Depression to find a worse one-year performance by a major U.S.

stock market index.” So begins an article published by Bloomberg at the end of December, 2000. Dell Computer, the best-performing stock in the Standard & Poor's 500 Index for the 1990s, plummeted 67% in 2000. Yahoo dropped 86%. CMGI declined, if that's the word for it, 96% and Priceline.com, not to be outdone, lost almost 99% of its March value by the end of December. Lucent Technologies slid 81%. Even venerable AT&T tumbled 66%. Bloomberg proclaimed it the end of an era. . . the end of the 1990s Mania.

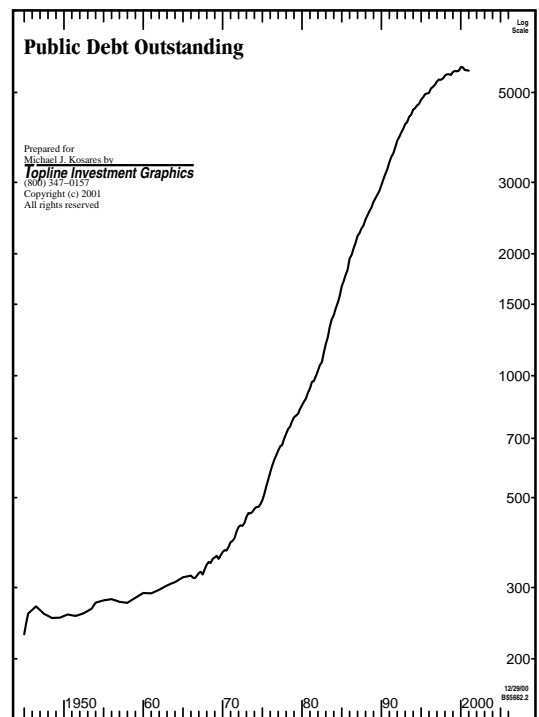
IT SEEMS EVERY GENERATION HAS ITS STOCK MARKET CRASH and in each instance the Crash was followed by a newly found appreciation for gold and its safe haven attributes. We do not think this Crash will be any different.

IT APPEARS THAT THE NASDAQ EARTHQUAKE WASN'T THE ONLY DISASTER to strike in 2000. Munich Re, the world's largest reinsurer, reports that natural disasters rose by more than 100 in year 2000 to 850 -- a record. 10,000 died and material damage was set at \$30 billion.

“THE Y2K COMPUTER GLITCH HIT NORWAY'S NATIONAL RAILROAD company a year later than expected,” reports the *Washington Post*. “The bug was discovered when none of the company's new 16 airport express trains or 13 high-speed, long-distance Signatur trains would start early in the morning of Dec. 31. The computers on board the trains apparently did not recognize the date.”

BELIEVE IT OR NOT, BILL CLINTON PROJECTS that the United States will run a \$1.9 trillion budget surplus over the next decade and will be debt free by 2010. The government, he says, has run “surpluses” for the past four years. A quick check with the U.S. Treasury Department tells us that, at 1996 fiscal year end, the national debt stood at \$5.224 trillion. At fiscal year end 2000, the national debt figure had grown to \$5.674 trillion. In other words, during the same four years Mr. Clinton says we ran surpluses, his own Treasury Department reports \$450 billion in new government debt.

. THE BUSH ADMINISTRATION AND FED CHAIRMAN GOT OFF TO A BAD START. Bush wants a major tax cut of \$1.3 trillion over ten years. Greenspan wants revenue to pay down the national debt. Bush justifies his tax cut based on the numbers



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**FIVE STOCK MARKET
MYTHS AND REALITIES**

MYTH 1: We are in a New Paradigm. Stocks will never again suffer a bear market; and we will never again have a bad economy. We are at the End of History.

REALITY: There is no New Paradigm; we are now in a bear stock market; and increasingly it looks like the country will sink into an inflationary recession. Markets cycle despite Wall Street's fondest hopes. History has prevailed. New Paradigms are the expressed wish of Wall Street promoters at market tops.

MYTH 2: With the automatic capital feed from retirement plans into various mutual funds, the mutual fund industry will never experience hard times and the stock market will have a constant, never-ending flow of fresh capital.

REALITY: Mutual fund cash flow has dried up and in fact gone in reverse. Money is fleeing stock market mutual funds for money market accounts. The mutual fund industry has been routed by the bear market. It is disorganized, in disarray and is retreating.

MYTH 3: Inflation will be contained by a steady flow of cheap imports.

REALITY: A tripling in the price of oil -- our primary import -- put this myth to rest.

MYTH 4: Aggressively buy the dips because the stock market always comes back.

REALITY: That advice holds water in a bull market, but serves poorly when the bear's on the loose. Many stock market investors have never experienced a bear market before. The cry "Buy the Dips" -- a successful strategy during a bull market -- quickly transformed to "Sell the Rallies" in a bear market.

MYTH 5: Gold is no longer a viable portfolio alternative because the government and the Federal Reserve will insure forever a healthy stock market and a strong dollar.

REALITY: Wrong on all counts. Gold is an historically proven hedge against equity market weakness, inflation, deflation, systemic bank and financial sector risks and various economic, political and social maladies. The government is not omnipotent, neither is the Federal Reserve. Markets cycle despite the best laid plans. Only gold insures portfolio health through thick and thin. It is the fiduciary asset par excellence without equal, and is the only primary asset which is not simultaneously another's liability.

SHORT & SWEET, CONTINUED.

quoted by Mr. Clinton above. I think Greenspan knows the score --- that in reality there is no budget surplus and end runs the whole issue by saying the debt should be paid down. An interesting way to handle a complicated and nettlesome problem. **FROM MAESTRO BY THE WASHINGTON POST'S BOB WOODWARD** (of Watergate fame): "[Bush] felt his 1992 re-election defeat was Greenspan's fault because the chairman didn't lower interest rates fast enough to make the economic recovery more visible to the public." The book also reports some rancor between Alan Greenspan and Bush Senior Treasury Secretary Nicholas Brady who eventually cancelled his weekly breakfast or lunch meetings with the Fed chairman. On your list of things to watch for in 2001, make sure you save a place for relations between the incoming Bush administration and the current Fed chairman. It would be a mistake to ignore that there is bad blood between the Bush group and Greenspan. **ALONG THESE LINES, THE BUSH ADMINISTRATION IGNORED THE WALL STREET-BRED CANDIDATES FOR TREASURY** and went with retiring Alcoa chairman and non-Wall Streeter, Paul O'Neil. Also, Lawrence Lindsay, who himself has been at odds with Greenspan from time to time while serving on the Federal Reserve Board, has been appointed chief economic advisor. Wall Street should not harbor any doubts that this economic team is a clear break philosophically with the Clinton past. The markets are reacting to the atmospheric changes with a high degree of *angst* -- *angst* not covered very well by the mainstream financial press which has concentrated on avoiding the issue. **WHEN PRESIDENT-ELECT BUSH WARNED OF A RECESSION RECENTLY** (thus deflecting any blame if it should occur), some of the harshest criticism came from Goldman Sachs, whose members heavily backed Al Gore and Hillary Clinton. The Goldman attack highlights the politically charged atmosphere in the financial markets these days. The dollar and the equity markets will suffer as a result, and gold will be a likely beneficiary. **ANTHONY SUTTON:** "Those entrapped by the herd instinct are drowned in the deluges of history. But there are always the few who observe, reason, and take precautions, and thus escape the flood. For these few gold has been the asset of last resort."

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SHORT & SWEET, CONTINUED.

A *CNN* INTERVIEW OF OPPENHEIMER'S MICHAEL METZ AS REPORTED BY USAGOLD SITEMASTER, RANDY STRAUSS: "First, [CNN's] Mr. Varney congratulated Mr. Metz on his impressive call last year--Mr. Metz had been bearish on the U.S. stock market for 2000 at a time when few others were. When asked what he sees for 2001, Mr. Metz continues to see tough times for U.S. stocks, and sees the dollar weakening. He said that foreign investors are even bigger trend followers than Americans, liking to put their money in investments enjoying an up-trend within regions where the local currency is also enjoying an up-trend. . . Mr. Varney then asked him essentially, 'What about gold? It's been out of favor for 20 years, do you see any changes?' Mr. Metz replied that the answer is naturally YES given his expectations for the weakening dollar and expected shift of capital. More specifically, he expects [to



paraphrase by memory] 'a big move up in gold early next year' [2001].'' WE CONTINUE TO GET THE E-MAILS AND TELEPHONE CALLS OF APPRECIATION FOR OUR USAGOLD WEBSITE (WWW.USAGOLD.COM) ALMOST DAILY. If you are the type that likes to keep up with political and economic events as they affect the financial markets, I couldn't think of a better place to do that than our website. **HARRY BROWNE:** "When paper money systems begin to crack at the seams, the run to gold could be explosive." THE NEWS AND VIEWS' GOLD EVENT OF THE YEAR FOR 2000 IS NOT AN ACT, OR EVEN AN EVENT, BUT A STATEMENT by Robert Guy of London's famed N.M. Rothschild. He suggested at a London conference of central bankers that "central banks should follow the example of the U.S. Federal Reserve, Bank of Japan and European Central Banks and stop lending their gold." The statement on the face of it seems innocent enough but it carries enormous implications for the future price of gold. Leased gold in recent years has served as a ready source to fill the large gap between supply and demand -- gauged in some quarters at nearly 1000 tonnes per year. Had

(CONTINUED ON PAGE FIVE. . . .)

THE NINETEEN LIFE INSTRUCTIONS FOR THE NEW MILLENNIUM FROM THE DALAI LAMA

Take into account that great love and great achievements involve great risk.

When you lose, don't lose the lesson.

Follow the three Rs: Respect for self, respect for others, responsibility for all your actions.

Remember that not getting what you want is sometimes a wonderful stroke of luck.

Learn the rules so you know how to break them properly.

Don't let a little dispute injure a great friendship.

When you realize you've made a mistake, take immediate steps to correct it.

Spend some time alone every day.

Open your arms to change, but don't let go of your values.

Remember that silence is sometimes the best answer.

Live a good, honorable life. Then when you get older and think back, you'll be able to enjoy it a second time.

A loving atmosphere in your home is the foundation for your life.

In disagreements with loved ones, deal only with the current situation. Don't bring up the past.

Share your knowledge. It's a way to achieve immortality.

Be gentle with the earth.

Once a year, go someplace you've never been before.

Remember that the best relationship is one in which your love for each other exceeds your need for each other.

Judge your success by what you had to give up in order to get it.

Approach love and cooking with reckless abandon.

[Thanks to client ES of Taos, New Mexico for passing along these words of wisdom.]

COIN OF THE MONTH
THE SCARCE DUTCH QUEEN "LONG HAIR" COINS
OFFERED HERE FOR THE FIRST TIME

We have had strong interest in the Dutch group of gold coins minted in the late 19th and early 20th Centuries, and now we can make this beautiful and unusual coin available to our clientele for the first time ever. With only 454,000 minted, this item is scarce and



we would recommend your quick response due to the limited availability. The roughly one-fifth ounce coin portrays the young Wilhelmina when she first assumed the throne of the Kingdom of Netherlands in 1892 -- the land of windmills and tulip fields stretching as far as the eye could see. Now you can purchase the coin depicting the free-spirited queen that rounds out the Dutch grouping which includes this coin (1897 only -- the other dates are rare), the Dutch



king (1875-1889) and the middle-aged Wilhelmina (both types 1911 - 1933)

which many of you already own. If you want to order this coin as a fill-in item, you can do so by ordering it alone in whatever quantity you desire, or you can order the other two items with it to form interesting historical sets.

We only have 400 of the Dutch Queen "Long Hair" coins.
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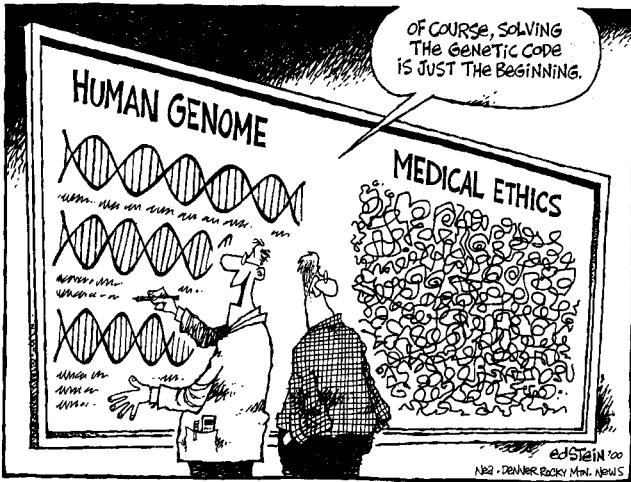
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SHORT & SWEET, CONTINUED.

the suggestion come from anyone but Mr. Guy, it might have been overlooked. But because it came from the powerful London offices of N.M. Rothschild, it was received with much trepidation by the gold bears and with applause by the gold bulls. (Remember, it was Mr. Guy's statements about "transparency" in central bank gold operations that presaged the Washington Agreement to cap gold sales and lending.) And so it is fitting that we proclaim Robert Guy's statement **THE**



GOLD EVENT OF THE YEAR. BUNDESBANK PRESIDENT, ERNST WELTEKE, as quoted in Central Banking magazine: "Gold is an important monetary reserve and, as nobody knows how many reserves may be needed in the future, we should not lower our defences too early. We have an international agreement on gold and it is not wise to reopen it. We have all agreed that we should not sell more than 400 tonnes a year. The British have been selling. The Swiss also, and they have more justification for it because their per capita gold reserves are larger than the British. But we should not sell more. It is somewhat disturbing that, on the one hand, we have the poverty-reduction plans of the World Bank and IMF and yet, on the other hand, we damage poor gold-producing countries by selling gold and reducing the price." **EIGHTEENTH CENTURY SCOTTISH PHILOSOPHER SIR ALEX FRASER TYTLER:** "A democracy cannot exist as a permanent form of government. It can only exist until the voters discover they can vote themselves largess from the public treasury. From that moment on, the

majority always votes for the candidates promising the most benefits from the public treasury, with the result that a democracy always collapses over loose fiscal policy, always followed by dictatorship." **THE CIA RECENTLY PUBLISHED A STUDY TITLED *GLOBAL TRENDS 2015*** that projects a future in which globalization, whether the European Union or IMF models, powerful giant corporations, and terrorist and criminal gangs will increasingly dominate life on the planet. Criminal groups, says the report, such as the Mafia and Chinese triads, "will corrupt leaders of unstable, economically fragile or failing states, insinuate themselves into troubled banks and businesses, and co-operate with insurgent political movements to control substantial geographic areas." The report goes on to say that the United States will not only have to contend with organized crime and rogue states capable of sophisticated biological and chemical attacks, but the growing economic and military power of China and India, along with the continuing decline of Russia where the economy will contract to one-fifth its current size. China's economy will grow to overtake Europe as the world's second largest economy but remain smaller than the United States. Europe will not achieve the dream of

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SHORT & SWEET, CONTINUED.

parity with the United States due to "lingering market rigidity and state regulation." In an alternative and alarming scenario, the CIA warns of the possibility of a trade war between Europe and the United States, a terrorist alliance to attack the West, and economic stagnation leading to the U.S. abdicating its role as the world's policeman. Simultaneously tension grows between China and Japan bringing the United States to the brink of war in Asia. *The London Telegraph*, which broke this story, says that President-elect George Bush will find this report on his desk when he takes the reins of power on January 20th . . .

Dr. Moneywise says:
Please read carefully the words on this page
for Wit & Learning & Elegance of Phrase
And how to make Golden your Income & Days.
All this & more you will find written here:
Wealth follows Wisdom.
And Good Fortune, Common Sense.
So says the Owl
As we start the New Year.

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A.S. JAYAWARDENA, GOVERNOR OF THE CENTRAL BANK OF SRI LANKA: "As you know, gold is a very fascinating metal. There are so many metals in the world but gold happens to be something always special. That's because of its extraordinary qualities like attractiveness, divisibility, strength and

most important of all, gold is a rare commodity relative to other metals. The growth in the supply of gold has kept pace with the demand for it and therefore it has maintained a relatively stable value. When the kings of our history went to war, or when money was debased in times of hyper-inflation caused by other factors, gold has been the most trusted friend of many, because it maintained a relatively stable value. So this fascination with gold, in my view, will never end as long as human beings live. In fact, I would like to quote our first Governor of the Central Bank, the American-born John Exter, who came from the Federal Reserve of the United States, who now lives in splendid isolation in Boston. Every time you meet him, he wants to know whether we have bought gold and how much we have. He would always say that you are never wrong when you are with gold."



and how much we have. He would always say that you are never wrong when you are with gold."

. JOHN EXTER, MENTIONED ABOVE BY MR. JAYAWARDENA, IS AMONG THE ORIGINAL GROUP OF GOLD ADVOCATES who first challenged the undisciplined government issuance of fiat money and influenced a generation of gold advocates, myself included. One of

his more famous laments: "We are in a world of irredeemable paper money --a state of affairs unprecedented in history." **.INDEED WE ARE, Mr. Exter, and that is why every portfolio needs to hold yellow metal as a defense. WITH THAT THOUGHT WE WILL BID YOU HAPPY TRAILS** until we meet again. We wish you a Happy, Healthy and Golden New Year.

---- Michael J. Kosares

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