

NEWS & VIEWS

January, 2000

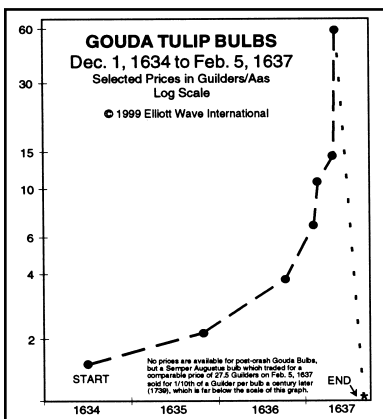
Forecasts, Commentary & Analysis on the Economy and Precious Metals

Celebrating Our 27th Year in the Gold Business / Centennial Precious Metals/ Since 1973

“(Nobel Prize winner, Robert Mundell’s recommendation to return to a gold standard) will be ignored, as it always is. It transfers economic sovereignty back to individuals, who use currencies or abandon them, as they see fit. Gold is the great enemy of central banks and government deficits. The religion of deficit spending is just too deeply entrenched in modern government. This is the century of central banking. The next century won’t be.” Gary North

OF MANIAS AND THEIR INEVITABLE CURE:

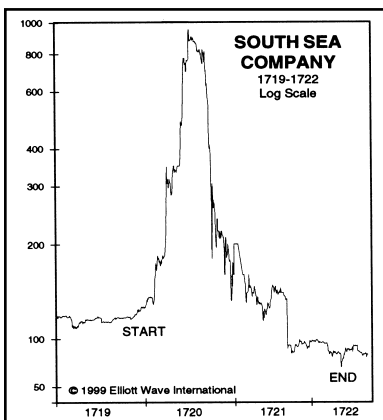
WILL 2000 BE THE YEAR?



The stock market.....It has been called BubbleMania, the Goldilocks Market, and the Bubble in Search of Pin. Its final blow-off stage over the past year has truly been wondrous to behold. Fortunes have been made (at least so we’re told), and speculation has been king of the hill. As such, value no longer matters. Old market measuring sticks like price-earnings, book value, price-dividend--and even profitability--have given way to appreciation rates of sometimes 500% to 1000% in a single day on companies that have yet to scotch-tape their first dollar to the cash register. This is a market flying on a wing and prayer--and nothing else.

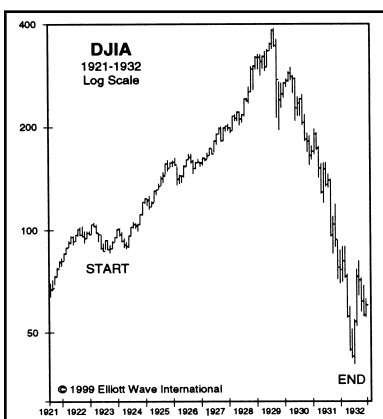
course, but a large number of investors aren’t taking any chances. Beginning in October, Centennial Precious Metals began to see signs of a New Paradigm of its own. Investors started calling with rather large orders saying they were hedging a stock market correction by liquidating stocks and putting their winnings into undervalued gold.

Apparently, unbeknownst to us until recently, this move to gold was occurring on a larger scale across the country. Felix Freeman from Scotia Mocatta, a major bullion dealer, observes: *“The nature of gold buying is changing. Wealthier investors are buying large lots, often US \$1-10 million, not for Y2K reasons, but to exit equity markets for capital preservation. Such buying hasn’t been seen in size for 10 years.”*



What matters now is the Trend. The Hype. Which of the shiny new offerings CNBC is going to endorse in its daily, continuous and virtually uninterrupted Wall Street sales pitch. It’s not what you know about a stock and what its prospects are in this wild and woolly economy, but whether or not your name sits in the right Rolodex at the right Wall Street firm, so you can have the inside track on the hottest of the hot new IPOs. Then you get to plunk down your dough to test whether or not the Greater Fool Theory is still operable.

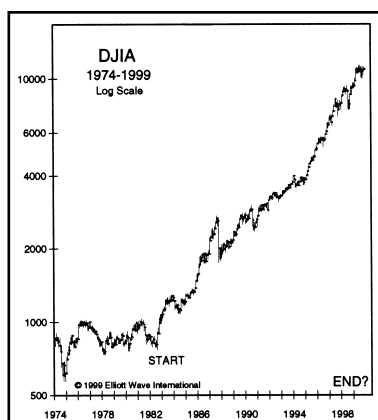
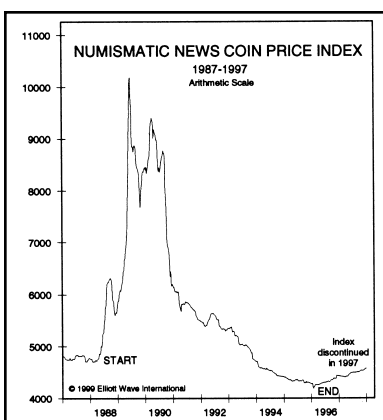
To get a sense for what is motivating this latest move to gold, we have reproduced (surrounding this intro) a series of graphs designed and published by our friend, Robert Prechter, who has become a modern Cassandra on the nature of manias and their effects. One cannot help but note the over-the-cliff, swan-dive conclusion to these market episodes.



But even amidst this greatest of the Eras of Good Feeling, there are those who see dark linings in all these adorable, puffy little clouds Maria Bartiromo likes to tell us about each day from the floor of the New York Stock Exchange. For these people, the thought keeps cropping up that nothing lasts forever, that every market must correct and every economy cycles between good times and bad.

Mr. Prechter’s reasoning as matched to the graphs is offered further on. We also offer an excellent article on the current gold market by James Turk entitled “The Grand Scheme”--which we hope you will find as interesting as we did. Your monthly favorites are here as well as a better than average GOLDNOTES section. We hope you gain from this January 2000 issue. A Happy and Prosperous 2000 to all!!

Will 2000 be the year the markets serve retribution? No one knows for sure, of



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GOLDNOTES

WHAT NOBEL PRIZE WINNER MUNDELL'S POSITIVE VIEW OF GOLD MIGHT MEAN TO ITS FUTURE PRICE

When Nobel laureate, Robert Mundell, proclaimed recently "[g]old will continue to play a very significant role in the world's central bank reserve systems for much of the next century," he undoubtedly sent shudders through many a New York and London trading house. Mundell, known as the "Father of the Euro" and one of the primary architects of the new European monetary order, says the overall gold stock in central bank coffers will remain the same and under such circumstances "the price will have to go up." If Mundell is right, the new movement afoot to re-establish gold's role as a reserve asset could portend good things for gold owners as we move into the Twenty-First Century.

Here's why:

Firstly, the euro, with a strong reserve role for gold, will serve as the prototype for the Twenty-First century reserve currency.

Secondly, in order for the dollar to compete on equal footing with the euro in the future, the United States at some point will be forced to engage its reserves as an active component of dollar reserves marking their value to market. (Switzerland recently announced it would be doing this.) As Mundell says in the same speech: "Countries will simply not risk just holding paper currencies, especially if there is any change in the international monetary system."

Thirdly, for Japan and the Asian tigers to compete in this arena they will be forced to purchase gold for their own reserve system. At present, their gold reserves are thin in the extreme compared to the size of their economies. There have

been rumblings out of Japan for years which point to their recognition of the need for gold reserves including the famous statement by Prime Minister Hashimoto a few years back that Japan had considered selling U.S. Treasuries and buying gold. There have also been rumors floating around the gold market for years that both Japan and China were secretly accumulating gold through back channels, though nothing has ever been proven--no public acknowledgement ever made. However, it makes perfect sense to think in the Mundellian world of gold-based reserves, the East would have to become gold owners in order to play in this tri-currency world.

This, of course, portends huge demand requirements. Gold will have to come from both above and below ground. All of this points the investor in two directions--physical gold stored safely nearby and unhedged, well-run, highly productive gold mining companies that will benefit from the re-institution of this quasi-gold standard. MK

WERE THE MINING COMPANIES DUPED BY THE GOLD BULLION BANKS?

"Orange County is being re-enacted right now in London. This time, the derivatives that have done the damage are gold futures and options. The sellers were the investing houses. The unsophisticated investors were mining companies. No one has a definitive list of the firms principally involved in the selling but the names that crop up most frequently in industry newsletters include Goldman Sachs, Chase Manhattan, Republic National Bank, American International Group, JP Morgan and UBS. The miners that have been caught allegedly include Ashanti, Newmont, Barrick and Placer Dome."

-----Andrew Hilton, *London Daily Telegraph*

THE SIGNIFICANCE OF THE 42% REDUCTION IN THE COMEX SHORT POSITION IN GOLD

The recent unwinding in COMEX speculator positions could be a sign that major financial firms, stung violently when European central banks agreed to a moratorium on further gold sales and leases, are being forced by upper management to clean up their hedge books before the end of the year, and certainly before the institution of new accounting standards for derivatives goes on line in mid-June. These new standards, promulgated by the National Accounting Standards Board, will force mining and financial firms to mark their trades to market on their financial statements--a move that could radically alter the bottom line for many companies publicly traded on Wall Street. As Leanne Baker of Salomon Smith Barney pointed out in her article, *A NEW MILLENNIUM GOLD RUSH: THE BULL MARKET IS JUST BEGINNING* (featured here last month): "Under (the new rule) SFAS 133, the recent gold rally and plunge in mark-to-market value of mining companies' hedge books would result in huge hits to net income from call options sold and to equity from sub-market forward contracts. Current rules allow these effects to be disclosed as a simple footnote to the financial statements, but if the gold price stays in the \$320 per ounce range--or trades higher as we expect--the SFAS 133 derivatives-related damage to company income statements and balance sheets will be staggering." The new standards could very well force those large financial institutions short the market to be very careful about how they play the gold market in the future. This in turn could lead to a removal of one of the prime deterrents to higher prices in the last several years.

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GOLDNOTES

WORLD GOLD DEMAND JUMPS IN THIRD QUARTER

Driven by Asian jewelry demand and investment offtake worldwide, gold demand jumped 22% worldwide to an all-time quarterly record of 876.5 tons, according to the World Gold Council. For the first nine months of the year, gold demand reached 2471.6 tons--a 30% increase and also a record for the period. The demand surge was led by strong demand in Asia across the boards as it recovered from the economic malaise of last year. The U.S. demand, though unchanged, continued at the record rate of the previous quarter. The Council attributes the historically high U.S. offtake to "Y2K fears coupled with concern over a stock market correction...." The Council called the European central bank announcement to curtail gold sales and leases a "bombshell that changed the perspective of the market overnight."

Ultimately the decision by the European central banks to limit gold sales for the next five years will be seen as one of the landmarks in the gold market in our generation. Although central banks have been net sellers into the market since 1965 (prior to that they were regular net buyers), the uncertainty about the timing and amount of their sales has hung over the market for much of the 1990s. That fear has now been dissipated. True, sales will continue, but modest and controlled. And I hope with the precedent that, in five years' time, a similar sales policy will be repeated."

---- Timothy Green, author of several notable books on gold.

SHOULD BILL GATES TRADE MICROSOFT FOR GOLD?

All gold mines in the world produce annually about 2,600 tons of gold with a total value of close to US \$30 billion. Since Bill Gates owns about \$100 billion worth of Microsoft shares, he could buy more than 3 years of annual gold production and still keep some change....

All the gold in the world that is above the ground--in the form of coins, jewelry and central banks' ingots--amounts to about 120,000 tons, valued at present at US \$1.3 trillion. Compare this to the market values of the largest six U.S. technology companies--Microsoft, Intel, IBM, Cisco, Lucent and Dell--which total \$1.6 trillion (up twelvefold from \$133 billion in 1995). Meanwhile, the global bond market's market value is \$30 trillion. These comparisons suggest there is relatively little gold around. Its annual supply, at \$30 billion, is also tiny when compared to the annual supply of bonds in the world, at about \$3 trillion.

Consider: If everyone in the world bought one gram of gold per year (current price: \$11), annual demand would amount to 6,000 tons, or 2.5 times the annual supply. Impossible? But last year India, with a population of 1 billion and GDP per capita of just \$300, bought over 800 tons of gold, almost 1 gram per person.

If investors' psychology changed and gold was once again regarded as a store of value, as in the 1970s, when its price shot up to \$850, then demand would be twice as large as all the gold available outside the central banking system.

I would rather own, now, close to half the world's available gold than all the world's Internet companies....

After its recent surge from around \$252 to over \$320, gold may run into some profit taking. However, since the outstanding short position still exceeds over 4,000 tons and may be as high as 8,000, I very much doubt that we will again see gold fall below \$280. The downside risk is, therefore, about 10%, compared to huge upside potential if the annual physical

demand is supplemented by a change in investor psychology and by central banks' buying the metal to diversify their monetary reserves.

So go for it, Bill Gates. By trading your Microsoft stock for more than two years of annual gold supplies, you could bleed the shorts and drive gold to \$1,000.

---- Marc Faber, *Gloom Boom & Doom Report*.
e-mail: contrary@hk.super.net

FINANCIAL DERIVATIVES MANIA/STEVE PUETZ

Since August, a most unusual situation has taken place in the options' markets. Open-interest has absolutely exploded!

While financial derivative open interest has been rapidly expanding for many years, never has the expansion been so fast in such a short period of time. It has simply gone geometric! (See graph page five.) Currently, open-interest stands at twice the lofty levels of mid-summer. What can possibly be happening?

I cannot be certain, but circumstantial evidence points to a likely scenario.

1) It is doubtful that individuals are responsible for such a dramatic accumulation of option contracts. Hence, it must be institutional related.

2) The activity has been concentrated in options on individual stocks and LEAPS. Thus, it's related to stock market activity rather than credit-markets or currency markets.

3) Call open-interest has been expanding about evenly with put open-interest. This suggests that spending is taking place.

(CONTINUED ON PAGE FIVE)

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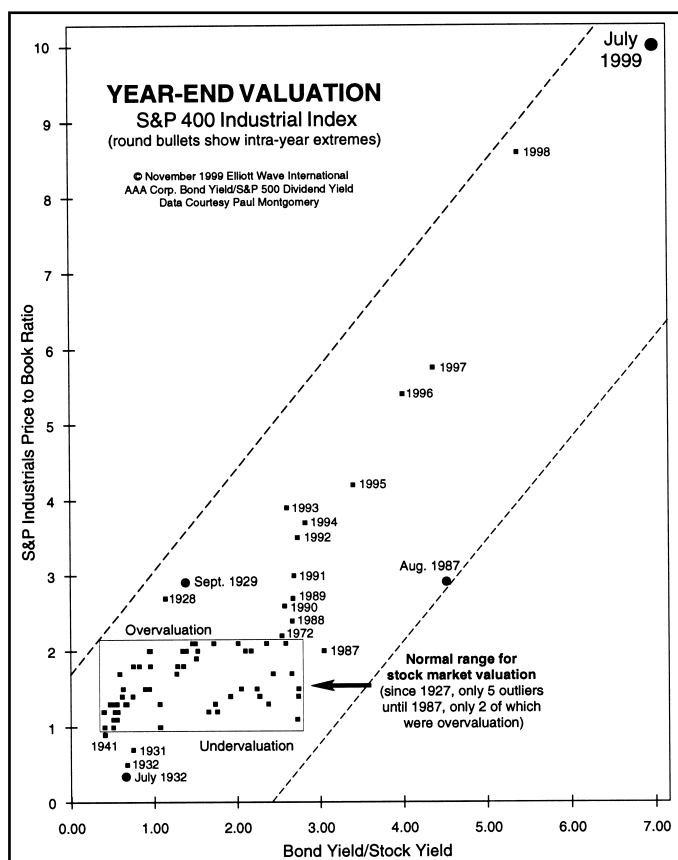
Current Prices	Since last issue.....	
12/16/99		
Gold	281.80	- 17.30
Silver	5.20	+ 0.07
Platinum	418.50	- 8.40

Comment: Gold continues in its uptrend despite a minor setback from short sellers. Silver is trading higher due to increased industrial usage while platinum vacillates based on Russian supply problems.

FAMOUS MARKET MANIAS AND THEIR AFTERMATHS 1600-1999

BY ROBERT PRECHTER, *THE ELLIOTT WAVE THEORIST*

(EDITOR'S NOTE: We do not always agree with Robert Prechter but we always take note of what his thinking happens to be at any given time. We happen to agree with him on the development of this stock market/economic mania. This is the article that accompanies the graphs on the front page of this month's newsletter. Prechter believes that gold will go the \$180 mark amidst the worst depression in history while he sees stocks collapsing to the 300 level. We do not see either market going to those levels, but were it to occur, you can see how gold now at \$280 level would be a better place to park funds during a mania meltdown even in Prechterian terms, as the losses wouldn't be nearly as great. A dollar invested in stocks at this point would be worth 2.5¢ but the same dollar invested in gold would be worth 65¢ if Prechter's scenario were to evolve. Also, in this type of scenario you would be safe and liquid whereas cash in the bank or stocks might evaporate in a deflationary storm.)



Should we care that the stock market is making a Grand Supercycle top? Pundits tell us, "The stock market always comes back." Well, many stocks have indeed come back during the course of the Supercycle degree uptrend since 1932 and even the Grand Supercycle degree uptrend since 1784. Even within those times, bear markets as small as Cycle degree have caused many companies to go bankrupt, their names forgotten. As with every other social effect of wave dynamics, the effect is proportional to the degree of the wave. How big a wave are we expecting?

On rare occasions, a financial market will be subject to a mania. A mania is a rare event whose aspects include historic overvaluation and broad public participation. (The scatter chart titled Year End Valuation below) reveals that today's stock market is historically overvalued. Statistics on stock ownership reflect the broadest public stock participation perhaps in the history of man.

(As the charts shown on page one) reveal, manias are always more than fully retraced. This crucial piece of informa-

tion is in full concordance with the fact that the Supercycle wave from 1932 is a fifth wave and must be mostly retraced by the normal course of Elliott wave development. This means that the mania, which dates from 1982, will be more than fully retraced by the next bear market. Specifically, the next bear market will take the DJIA below 777. According to our only relevant data, most stocks do not come back after they have been subject to manic overvaluation. At least, that was the experience of the London stock exchange following the South Sea Bubble, a stock mania that peaked in 1720. A scant two years later, over half the stocks that were trading at the top were no longer even listed.

Manias are highly damaging to the economy because of the breadth and depth of public participation. As a mania progresses, prosperity itself becomes dependent upon the continued rise of a manic market. When the market finally turns down, so does prosperity. It is particularly instructive to note that the Great Depression began in September 1929, the same month as the great stock price reversal month following the near-mania of the Roaring Twenties. This immediate response is in contrast to the typical multi-month lag between smaller stock market tops and ensuing economic contractions. Because the mania of the 1980s-1990s has been far greater than that of the 1920s, its reversal will have far more severe economic results than the reversal of 1929. In other words, the next depression will be deeper than that of 1933.

Exactly When?

Whether the Grand Supercycle bear market has already begun is impossible to say, but the evidence that a major, indeed historic, downturn is developing has piled up to the ceiling. The economic and social effects of this bear market will be so severe that anyone not prepared will be devastated. It is better to be early, even years early, than one day too late.

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"Well, I think that if you look --and we're talking mainly about the US market--we are just saying that, or I'm saying that--the position with the Dow, the S and P, and the net and tech stocks is that there is quite clearly rampant speculation. The values are stretched beyond anything we've ever seen, and that's a reason for caution."

----- Maurice Newman, Chairman of the Australian All Ordinaries Stock Exchange

DERIVATIVES MANIA/PUETZ, Continued

4) This expansion began in earnest about 4 weeks after the S&P 500 peaked in mid-July. This hints at the possibility that the decline in stocks has turned some people bearish.

This evidence suggests that the bearish market action that began last July has sparked a reaction among institutional money managers. For bearish money managers, a popular strategy is to sell calls and buy puts. These puts and calls are traded as a hedge against stocks which they own.

Here is an example of how it works. A mutual-fund is fully invested in stocks. However, a bearish money manager has limited options. That's because so many money managers have been fired for not staying fully invested. So, even if a manager has bearish inclinations, he might be slow to react to his judgement--preferring not to lose his job just in case he's wrong, and the bull market continues. During a bull market, staying fully invested is the optimal strategy.

Now, this particular manager decides to remain fully invested to preserve his job. Yet, he embarks on a strategy that will protect him to some degree whether stocks rise or fall. Instead of selling stocks from his portfolio, he chooses to use options to protect himself.

The strategy employed is to sell call-options and collect the premiums. With these proceeds he buys put options. So the trade costs him nothing. That's the advantage of the trade.

Nonetheless, there is a downside. Because put premiums are so high, and because the strategy often involves buying out-of-the-money puts, in a bear market, this spread will not

enough profit to offset losses in the underlying securities. Nevertheless, most money managers seem willing to accept this partial hedge as a small price to pay--in order to stay fully invested.

The terrifying aspect about this explosion in option activity is the fact that for every buyer, there must be a seller.

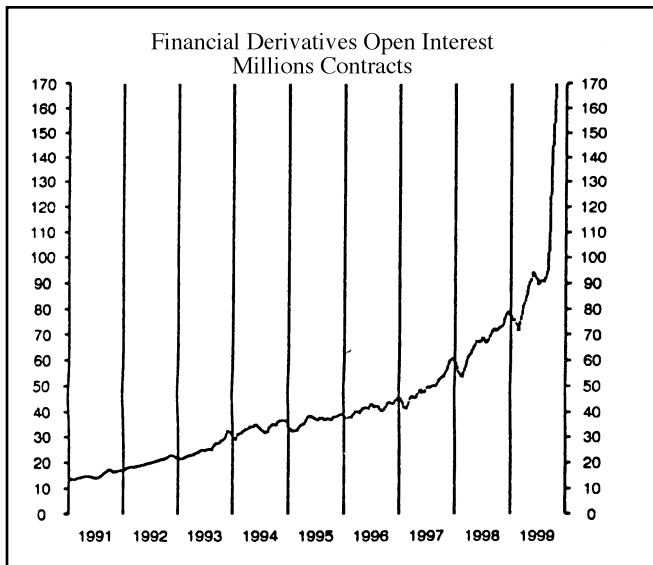
In particular, who is the counter-party to this portfolio-hedging strategy? Again, it's doubtful that individual investors have the resources to play this game in such huge numbers. So it must be institutional. And the prime suspects become the large brokerage houses and investment banks that deal in options--the likes of Goldman Sachs, J.P. Morgan, Morgan Stanley, Bankers Trust, and Citigroup.

Most important of all, in the event of a severe decline in the stock market, the writer's of put-option contracts will face an unbearable volume of margin-calls. (To a smaller degree, this happened in 1987.)

For put-writer's that are overextended, insolvency will become an immediate threat. And judging from the enormous open-interest totals, there are a lot of overextended put-option writers out there in the marketplace.

This one factor alone has the potential to topple the US financial system. This mind-boggling open-interest in financial derivatives is a force to be reckoned with.

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---James Turk, December, 1999

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THE GRAND SCHEME

BY JAMES TURK, *FREEMARKET GOLD & MONEY*

(EDITOR'S NOTE: We were going to do ten pages this month until we saw this important analysis by Mr. Turk. Please look for our comments at the end of the article.)

Recently, there have been some reports from mainstream sources acknowledging what has been my contention all along, that the high Gold interest rates of over the past few months are a result of some central banks withdrawing their Gold deposits/lending from the market. This withdrawal poses a big problem for the bullion banks.

As this liquidity is withdrawn, Gold is headed for \$500 and Gold's interest rates return to normal, or Gold interest rates are headed for 10% and Gold stays at an abnormally low \$280. Which will it be? Normal Gold price (\$500) and normal Gold interest rates (below 1%)? Or abnormally low Gold price (\$280) and abnormal Gold interest rates (10%)?

Clearly, the bullion banks will opt for double-digit interest rates and \$280 Gold, because the loss incurred from funding their Gold book at these high interest rates is less than the loss incurred if their short Gold positions were revalued due to a higher Gold price. However, for what it's worth, and at the risk of underestimating the considerable power of the bullion banks, I do not think that 10% Gold interest rates are realistic.

Something in the system would break (e.g., a bullion bank would go belly-up, or there would be a panic on Comex because of margin calls to spread traders if Gold goes into backwardation, etc.) long before we ever hit 10%. Therefore, the Gold price is headed higher OR the bullion banks get the central banks to lend their metal to provide liquidity OR the supply of metal needed to keep Gold interest rates and the Gold price relatively low comes from another source. Who is this source?

This question highlights the importance of whether or not there is any Gold in Ft. Knox. What if my friend André, who contends Johnson was duped out of 6000 tonnes or more from the US Gold reserve, is right? Where is this metal? Has it been dispersed into the market over the years? Is it still in one hoard?

And if so, do the bullion banks have access to any or all of this metal? And if they do have access to it, has this source of metal already been tapped? I dusted off that article from Letter #144 earlier in the year because it seems to me that André's contention that the US Gold reserve has been stolen is very much part of the current equation in the Gold market.

If you look at Gold lending estimates of 10,000 tonnes or more, it seems most likely that this 6000 tonne hoard has had to be tapped to some degree. There just isn't enough metal otherwise from central banks to fund 10,000 tonnes or more of Gold loans, accepting at face value what central bankers tell us about whether or not they are lending their country's Gold. That 6000 tonne hoard has had to be tapped, which means that bullion banks have had access to it. Which brings me to my main point — that the people who control the bullion banks and the people who duped Johnson are one and the same.

Consider this. There is no doubt that throughout this century Gold has been a thorn in the side of the bankers who control the big banks. Both the discipline of Gold and the discipline of the Gold Standard restrict the ability of banks to expand credit. If the banks cannot expand credit, their profits are constrained. Therefore, it is very easy to understand why the big bankers want to get rid of Gold. But how to do it? All their various efforts since the formation of the Federal Reserve in 1913 had failed to control Gold.

But in the 1960's some clever banker hits upon the Grand Scheme.

Get a massive hoard of Gold (6000 tonnes), make it invisible (everyone thinks it's in Fort Knox, and therefore not available for use in the market), and then use this hoard to your advantage by regularly intervening in the Gold market (just like central banks intervene to manage their fiat currencies) to achieve your Grand Objective, i.e., make the world believe that Gold is demonetized and that fiat paper currency is money.

The clever banker concocting this scheme enlists a couple of his brethren at the other big banks, and they use Johnson's ignorance to grab the US Gold, which is taken from Ft. Knox as my friend André says. The Grand Scheme begins.

The banks expand credit recklessly in the 1970's, setting off inflation. As a result, they learn that there are limits as to what they can do, even if they think the Gold genie is locked in a bottle. So they put Paul Volcker in charge of the Federal Reserve, who understands the process and reduces the rate of inflation. But the bankers are driven by the greed and easy profits that come from creating money out of thin air, so in the 1980's they search for alternatives to overcome the discipline that the Gold price exerts on them.

The Dollar is no longer on a classical Gold Standard, in which Dollars are *redeemable* into Gold at a fixed rate of exchange, the recourse available if the Dollar is mismanaged. Now the Dollar is on a freemarket Gold Standard, in which Dollars are *exchangeable* into Gold at the market price. By keeping that market price low and uninteresting, the banks can induce people into not exchanging their Dollars for Gold. The low Gold price makes the Dollar appear safe.

So the banks decide to lend the Gold to the mining companies. They can then earn interest on this hoard, but they will also be driving down the value of their 6000 tonne hoard. So they decide to lend all of it into the market and to get short as well (i.e., use Gold to partially fund their Dollar loan portfolio), thereby enabling them to earn profits from a lower Gold price.

This strategy also serves their bigger objective — to prove that Gold has been demonetized. And this strategy works, but only to a point. And that point is near.

For so many years not having to worry about the discipline imposed by Gold, the bankers forgot that they did not DESTROY the discipline of Gold. Rather, that discipline is still here, but just dormant under their anti-Gold regime. However, just like they pushed credit expansion too far in the 1970's, the banks have again pushed credit expansion too far now in the 1990's, but this time conditions are far worse. Not only has credit in fiat paper money been extended too far (creating the stock market bubble), but credit in Gold has also been pushed too far. While credit and liquidity problems in fiat paper can be dealt with by the lender of last resort, there is no lender of last resort in Gold. Therefore, the banks are in trouble.

But again, we must not underestimate the power of the big banks who concocted this scheme. Some of their options are:

- 1) *Get their central bank pals to lend metal.* New lenders, like the Swiss, have supposedly come into the market.
- 2) *Get more central bank pals to dishoard Gold* (like the Bank of England. The Dutch just announced a 300 tonne sale.

(CONTINUED NEXT PAGE)

THE GRAND SCHEME, CONTINUED

3) *Intensify their anti-Gold media campaign.* Have you seen the long article in the November 29th *US News & World Report* that Gold is being used in the drug trade? Will this be the next excuse for outlawing Gold in the US and seizing Gold from US citizens?

4) *Tap more of the 6000 tonne hoard,* assuming it hasn't already been all loaned out.

5) *Get the IMF to return Gold to its members, which will then be loaned and/or dishoarded.* This ploy failed this year, but after a few more months, I'm sure they will try it or some variation of it again.

6) *If all else fails, then close down the Gold market and/or confiscate Gold like Roosevelt did in 1933.* This time though, most of the major markets would participate in the closure/confiscation. Would their excuse be to outlaw the drug trade worldwide?

If #6 happens, we will be witnessing the end of the system of fractional reserve banking fostered by central banks since the creation of the Bank of England in 1694. In other words, it will mean the end of the cartel given by governments to commercial banks to bilk a country's citizens in exchange for the commercial banks giving power to governments through their ability to create fiat money. As I have said before, governments cannot create bullets out of thin air, so they create money out of thin air instead, and use this newly created money to buy bullets.

In short, banks and governments will no longer have the ability to work hand-and-glove toward their inter-related objectives, extort profits for the banks and unbridled power for governments. And it won't be a pretty sight.

The ultimate irony? The worst predictions of the Y2K doomsayers come true, but not because of computer problems. Rather, the monetary system built upon nothing but promises collapses because people finally realize that sometimes promises mean nothing, and if promises mean nothing, then the money of a monetary system built upon these hollow promises is worth nothing.

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For subscription information, please write Freemarket Gold & Money Report, P.O. Box 5002, North Conway NH 03860

EDITOR'S NOTE: We continue to believe that the best way to protect yourself against the potential for a gold confiscation is to own gold coins dated before 1933 which, in the past, have been categorized as collector items by the federal government. If Mr. Turk's concerns prove justified that there might be an international confiscation of gold, then the same principle might hold true for investors around the globe. As noted currency expert, Dr. Franz Pick, explained some years ago: "It is an idiosyncrasy of governments that although they may prohibit ownership of gold in any form, they are reluctant to touch collections of numismatic gold coins." There is no guarantee that pre-1933 gold coins would be passed over, we simply believe that logic and legal precedent are in our favor. Owning pre-1933 gold coins under such circumstances and having them stored nearby is a much more preferable solution to the problem of confiscation than an overseas storage account for two good reasons. Firstly, international confiscation would likely include those accounts even if they were opened in previously investor friendly countries like Switzerland. Secondly, in the event of a breakdown, your gold would be here with you instead of halfway across the world where it isn't going to do you much good.

TOP 30 GOLD HOLDERS AS % OF RESERVES

(December 1999)		
COUNTRY	%	# TONS
1 United States	54.1%	8138
2 Italy	49.6%	2452
3 Netherlands	47.8%	1012
4 Zimbabwe	43.6%	26
5 France	41.3%	3024
6 Switzerland	39.5%	2590
7 Portugal	39.4%	607
8 Russia	38.1%	484
9 Germany	34.1%	3469
10 Pakistan	28.1%	65
11 Algeria	26.4%	174
12 Romania	26.2%	102
13 Lebanon	25.1%	287
14 Bolivia	24.8%	29
15 Ghana	23.0%	9
16 Luxembourg	21.5%	2
17 Uruguay	20.2%	56
18 Austria	19.5%	407
19 Venezuela	19.3%	296
20 Belgium	17.5%	258
21 South Africa	17.0%	124
22 Libya	16.5%	144
23 UK	16.4%	640
24 Kuwait	14.9%	79
25 Saudi Arabia	14.1%	143
26 Spain	12.3%	523
27 Philippines	11.7%	188
28 Slovak Rep	11.1%	40
29 Aruba	11.0%	3
30 Kyrgyz Rep	9.9%	3
Other:		
33 India	9.4%	358
50 Australia	3.7%	80
62 Denmark	2.5%	67
63 Japan	2.4%	754
67 China	2.2%	395

Source: World Gold Council

NEWS & VIEWS Goes International

Now Available by e-mail

We are happy to announce that this month, technology willing, we will take *NEWS & VIEWS* international via e-mail. We have had a deluge of requests from people all over the world for the newsletter--from Canada, Australia/New Zealand, India, Europe, the Mideast, even Singapore and Hong Kong, to name a few.

In conjunction with the new international service, we will also be sending *NEWS & VIEWS* via e-mail to all those who have e-mail addresses on file at our offices. As a result, we will shortcut the post office and the slow delivery problems we have experienced in the past. You will need a ream of legal size paper to print the newsletter out, but other than that the new method shouldn't provide any undue inconvenience.

Though we are working diligently on the problem, we have yet to crack the mysteries of placing gold overseas. As a result, we will begin to build this market on the humble foundation of offering the newsletter with the hope that somehow in the future we will be able to serve that market.

To all our international Goldmeister friends, we bid you welcome and express the hope that our relationship will be a long and mutually beneficial one.

REVIEW OF RECOMMENDATIONS

**MUST READING FOR THE SERIOUS GOLD
INVESTOR/UPDATED MONTHLY**

BACKGROUND:

We continue to counsel that the best way to benefit from the current gold market is to accumulate physical metal for the medium to long term, and avoid such things as options, futures contracts and leveraged/loan positions. Gold has been range-bound over the past 30 days with strong, physical gold buying worldwide on dips while funds and Wall Street financial firms using options sell on rises. We do not think these options players will prevail in the long run in light of the recent Washington Agreement to curtail sales and leases, but we do expect these players to hold on with their fingernails until the bitter end. Timing speculative plays becomes problematic in a situation like this and the best way to own gold is to own the real stuff stored nearby. This also covers you in the event of a paper asset meltdown, as discussed elsewhere in this issue. Keep in mind that gold made its historic rise in the decade of the 1970s after the breakdown of the Bretton Woods postwar international monetary system and that rising prices lasted over a decade. Gold did what it wanted to do all along, but was prevented from doing so initially by the United States government and the London Gold Pool.

In my view, we are now witnessing the breakdown of the dollar-based floating rate system erected in the 1970s to replace the ill-fated Bretton Woods arrangement. Currencies have been allowed to float these past few years, but gold has not been. There has been plenty of speculation as to who is responsible for this situation--some of it aired here--but we believe that the effort to keep gold in a strictly defined band is coming to an end. With the announcement by the European Central Banks to limit sales and leases of gold, those attempting to manage the current gold system are now beginning to lose control. Witness the various margin calls on mining companies and hedge funds as proof of the theory. It will get worse before it gets better and intensify if prices go higher.

Those tempted to play this market through options, futures contracts, loan contracts and the like should take heed that those markets could implode leaving you holding a defaulted and worthless piece of paper. If you don't believe that, ask the traders who attempted to sell their call options into the September/October rally and were either counselled to "hold-off" or were asked to sell their call positions by placing "at market" orders--a distinct advantage to the trading companies but a hindrance to the call holder who can be easily whipsawed in the yawing chasm of the bid-ask spread. There could be more of that type of manipulation (and worse) if this gold rally moves forward as we expect.

Now the gold-carry system has been broken much like the London Gold Pool was broken in the early 1970s--an event that led to a rapid devaluation of the dollar. The price of gold will move up as this system breaks down. This time around--just as it did after Bretton Woods broke down--I would not be surprised to see gold rise in multiples of the current price. There will be some bumps in this road, but I believe we are going higher in the medium to long run--much higher.

Here at Centennial Precious Metals/USAGOLD, we will continue to monitor and report on day-to-day events, both here and in our daily internet reports (see advertisement at right), but the foregoing reveals our fundamental view and we believe so adamantly that physical ownership is the best approach for most investors. This method removes a great deal of the risk and allows you to participate in the run-up without losing sleep at night. When that day of reckoning comes, as it did in the early 1970s, you will not want to be without your metal.

In our view, at that time gold will be nearly impossible to obtain owing to the large number of people who understand gold, believe in it, now own it, and will continue to own it until there is some sort of active gold component in our currency. Investors will also be competing with those short the physical gold market scrambling to cover their contracts in an explosive meltdown situation described earlier in this issue.

The number of private investors worldwide who now own gold far exceeds the number of people who owned gold in the early 1970s. That fact of economic life will weigh heavily in the gold market logistics of the future. We, as an industry, will not be able to deal with the demand generated if and when the currency (dollar) and stock markets begin to unravel. The week of the Big Breakout in late September was a case in point. I am sure many of you encountered full phone lines and difficulty in placing your orders. That is why we recommend a steady course and acting now before the general public decides that gold is the place to be. Acquire and store for that rainy financial day and don't worry about the bumps and jumps in between. Prepare for the worst and hope for the best, my fellow goldmeisters. In all practicality, it is all we can do. It is also the prudent course.

SPECIFIC RECOMMENDATIONS:

There are essentially two ways to purchase gold in its physical form that most directly deal with the problems associated with our Five Horseman, as outlined in the September issue of *NEWS & VIEWS*. Those Five Horsemen of the New Apocalypse, as you might recall, are Euro introduction, Y2K, the Asian Contagion, the stock market bubble, and the realignment of the OPEC oil cartel.

Those two approaches are bullion gold coins like the U.S. Eagle and Austrian Philharmonic, and pre-1933 European gold coins like the British Sovereign, Dutch Guilder, German 20 Mark, etc. Whether you go with one or the other or some combination of the two is a personal decision that should be arrived at in consultation with your contact at Centennial Precious Metals. The decision hinges not on our viewpoint and opinion with respect to the future, but yours. I feel that there is a strong need for at least one-half of your gold holdings to be in pre-1933 European gold coins as the best protection we can offer with respect to privacy issues, particularly the potential for a gold confiscation. I feel that the small extra premium you pay for pre-1933 gold coins is well worth the additional peace of mind.

Additional considerations are whether or not you should purchase one ounce coins or the smaller one-quarter or one-tenth ounce varieties; whether or not silver and/or platinum should play a role in your portfolio; and whether or not numismatic coins make sense in relation to your needs and goals. All of this can be determined over the phone in a consultation with your contact here at Centennial. We invite your call.

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A Clean, Well-Lighted Place for Gold Investors

SHORT & SWEET.....Let's start the year 2000 with a brief refresher course in government finance--a favorite subject on these pages. I couldn't think of a better way to start the year.The National Debt stands at \$5,714,083,000,000 as of December 1, 1999 (that's \$5.71 trillion for those of you who have trouble with all those digits). Since we were only \$5,591,979,000,000 (\$5.59 trillion) in the hole on November 30, 1998, this amounts to \$122,104,000,000 (\$122.1 billion) in additional red ink over the past 12 months..... You might ask: "\$120 billion deficit while the politicians run about the countryside telling us all that the government is running a surplus? How can that be?".....The short answer is that politicians are not forced to look at borrowing money the way the rest of us do. They can call it something else--like off-budget receipts or some other nonsensical term meant to confuse the public--and



pretend that they haven't gone further into debt when, in reality, it's business as usual in the Beltway. But what the politicians are really doing is raiding the Social Security fund, leaving behind a chit, and using that to run the government. They talk about a "surplus" because they don't want the taxpayer to dwell on the fact that they are raiding the national retirement plan. Bill Clinton, of course, is the most egregious offender with respect to throwing the sand in our eyes. But he's not alone. He has plenty of accomplices in the Congress.....Southern Methodist University professor, Ravi Batra, has a new

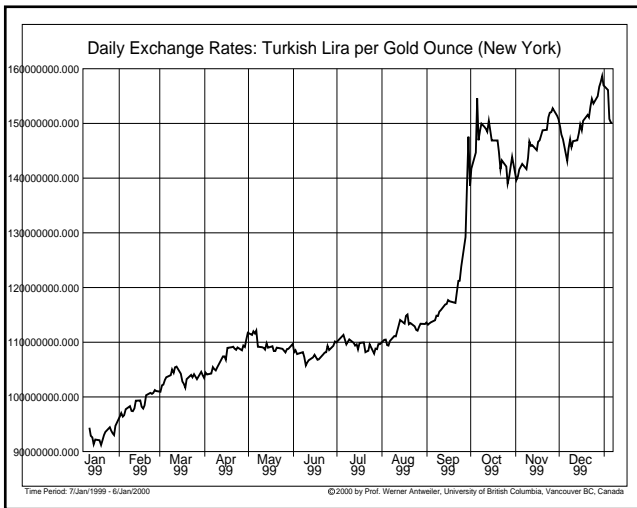
book out titled, *The Crash of the Millennium: Surviving the Coming Inflationary Depression*. In it he makes a fundamental point that sometimes gets lost in all the hoopla surrounding government finance: "Almost all governments in the world today have high budget deficits and debts that will be paid by posterity. I have yet to find another generation in the history of civilization that imposed a crippling burden on its children in order to enjoy the good life itself.....Their actions have caught up with them, as they find themselves burdened by a huge interest expense to service their debt. Money that used to invigorate education and health care now goes to the government's lenders."In the last fiscal year (according to the September, 1999 Treasury Department *Bulletin*), 36% of government tax revenue went to pay interest on the national debt--a shocking figure by even the most liberal accounting standards (\$806 billion in corporate and individual taxes vs. \$291 billion in gross interest).....James Grant (*Grant's Interest Rate Observer*) in an article entitled "New Year's Confetti": "In the United States, preparations for the millennium festivities have taken on the curious form of massive credit creation. The Federal Reserve has been buying government securities at a rate that used to be called inflationary.".....



Over the last three months, the Fed has created credit at an annualized 24% rate.....Grant concludes "Either the financial markets have failed to notice the stupendous growth in the Fed's balance sheet, or they have written it off as a millennial event without monetary significance. However, unless those dollars are promptly reeled back in again after the new year terror passes, monetary significance there will certainly be.".....By the time this reaches you, we will know at least some of the immediate effects of the date rollover.....We look for the more damaging effects to occur as the year progresses and the reports begin to come in on the Y2K effect overseas.....The Fed is taking no chances. In the period September-November 1999, currency in circulation had risen 24.7%.....From an interesting report by Joel Kurtzman forwarded to us by one of our clients (Thanks JDP): "Money was invented in the temples of Sumer about five thousand years ago. From that time until its death about two decades

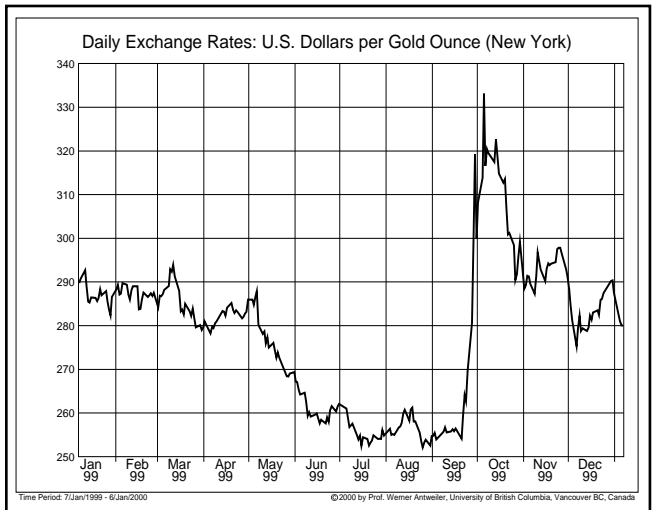
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SHORT & SWEET, CONTINUED.....ago, it remained essentially unchanged. It was a store of value and a unit of account....Money has been transmogrified. It is not longer a thing, an object you dig up at the beach or search for behind the cushions of a sofa; it is a system....Few people realize that money, in the traditional sense, has met its demise. Fewer still have paused to reflect on the implications of that fact.”.....Speaking of money, take a look below at the price of gold in Turkish lire shown below. As you can see, those who owned real money (gold) in that highly inflated economy not only survived the onslaught but prevailed......Are these some of “the implications” to which Mr. Kurtzman refers? (Our thanks to Professor Werner Antweiler of the University of British Columbia for granting permission to use his outstanding charting program -- go to <http://pacific.commerce.ubc.ca>)..... We try to



provide a different graph each month reflecting upon monetary hardship somewhere in the world. We hope the on-going pictorial lesson is not lost on our readers. We simply counsel diversification into gold no matter where you live. You never know when monetary disaster is going to come knocking on your door. Better to have hedged with gold and prevailed, than not and have your savings go up in an inflationary or deflationary firestorm.In that same report, Mr. Kurtzman points out that \$2.1 trillion in money transfers occur over local American data networks daily.....From The Street.com's

Scott Grimberg: "[A]mong foreign investors in Latin America, Y2K fears persist. Despite rallies in Latin American bond and equity markets, fund flows have remained low and, in some cases, turned into outflows in anticipation of Y2K. The fear is Latin American countries are unprepared for the turn of the millennium and will face massive computer and telephone failures, as well as electricity outages. The combination, of course, could cause debt payments and business activity to grind to a halt, not to mention urban unrest--one of the great turn-of-the-century fears.".....Reuters reports London Bullion Market Association gold turnover the highest since February at 37 million ounces daily. That represents about half of the world's mine production trading daily in foggy, old Londontown.....New York Fed heavyweight, Will McDonough, was recently quoted in a *Reuters* article saying that "one should not assume that the American economy can keep growing faster without inflation.".....A recent FWN headline reads: "White House: 90% of US oil and gas companies Y2K ready". Be assured that I will take comfort in knowing that only 10% of the oil and gas companies are ill-prepared.....



Richard Russell (*Dow Theory Letters*): “Everyone knows that the government’s statistics on inflation have been phony. Their statistics have totally missed the inflation in assets such as housing, collectibles, jewelry, plus the rise in everyday costs such as movie tickets, many food items, gasoline, rent, medical costs, etc.”.....From the believe-it-or-not department, in an article by Paul White as published in *The Reaper*: “Since the declassification of the new ground-penetrating radar 2 years ago, the most staggering data has emerged regarding complex labyrinthine underground systems in various parts of the world. At places like Guatemala in the South Americas, tunnels have been mapped under the Mayan pyramid complex at Tikal, which extend a full 800 kilometers to the opposite side of the country.....In similar fashion, the DIRA radar was deployed in Egypt as early as 1978, mapping an extraordinary subterranean complex beneath the Egyptian pyramids. Arrangements made with President Sadat of Egypt resulted in three decades of top secret excavations to penetrate the system. At a recent meeting in Australia, one of the key scientists on

(CONTINUED NEXT PAGE)

SHORT & SWEET, CONTINUED..... the project, Dr. Jim Hutak, showed film footage of work in progress called CHAMBERS OF THE DEEP, due to be released at the end of the century. The film reveals the discovery of a vast megalithic metropolis 15,000 years old, reaching several levels below the Giza plateau.”.....The *Ag Journal* out of Billings, Montana reports that: “While presenting a national award to a Colorado FFA member, (Vice President Al) Gore asked the student what his/her plans were. Upon hearing that FFA member wanted to continue on in production agriculture, Gore reportedly replied that the young person should develop other plans because production agriculture is being shifted out of the U.S. to the



Third World. Gore was instrumental in the development of the United Nations Agenda 2000, which calls for just such an outcome.”.....According to the *LA Times*, “[t]housands of California students are labeled ‘learning disabled’--often with lasting consequences--because they were not taught to read. Those with major handicaps also are poorly served. Tens of thousands of students in California's special education system have been placed there not because of a serious mental or emotional handicap, but because they were never taught to read properly.”.....Walter Cronkite:

"My vision for the 21st century is that, later rather than sooner but eventually during the next millennium, humankind will establish a viable and authoritative world government that will forever abolish war as a means of settling international conflicts.".....*The Drudge Report* says Bill Clinton's next job could be as president of the Motion Picture Association.....As published recently in *Washington Weekly*: “Ten percent of the Panama Ports Company that runs the ports at both ends of the Panama Canal is owned by China Resources, identified by the Thompson Committee as ‘an agent of espionage... for China.’ The FBI debriefing notes of John Huang, that were kept secret by the Justice Department for almost a year, revealed that China Resources also financed a Lippo-organized trip to Asia by then-governor Bill Clinton in 1985. Shen Jueren, the Communist official who heads China Resources, and Li Ka-shing, owner of Hutchinson Whampoa that owns the Panama Ports Company, are both partners in the Riady family's Hong Kong Chinese Bank, where Chinese spy John Huang started his career. He later advanced to a sensitive position with security clearance (without a background check) in the Clinton Administration. James Riady helped Clinton get elected in both 1992 and 1996.”.....The Monica Lewinsky scandal was never the impeachable act, it was Clinton's dealings with China that the Republican Party should have pursued during the push for impeachment.....With that we'll bring this issue of *News & Views* to a close.....We want to wish all a happy and golden Year 2000. And as always.....Happy Trails until we meet again.....MK

**Please Remember
the Golden Rule:**



**It is your purchase of gold
from Centennial Precious Metals
that nourishes these pages!**

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THE GOLD COIN OF THE MONTH

THE DUTCH TEN GUILDER



.1947 ounces fine gold/Uncirculated condition
Minted: 1911-1933

Two things pop to mind when the subject of Holland comes up. One, the 1637 Tulipmania--graphed so vividly by Robert Prechter on page one and referenced in a recent World Gold Council ad campaign (see below). And two, the Dutch penchant for fully understanding all things having to do with money, banking and trade --including the gold market. Though tulips have spent the last 360 years in happy financial dormancy, gold has not--as those of you who frequent these pages already know. It still holds the same position in the U.S. portfolio against the paper mania which seems to be raging across the financial landscape that it did for Dutch citizens at the time that a tulip bulb could have bought you the farm that grew it. Those who owned yellow metal prevailed. The Dutch Guilder has become a mainstay in the Centennial Precious Metals' client portfolio, though we can't always get them in sufficient quantity to make offers such as this. But we have them now, and we have them at very competitive premiums over the gold value. We invite you to take advantage of this offer. Though some equate the current stock market with Holland bulbs in the late 1630s, no such claim can be made against gold which is trading at historical lows for this period--and offering plenty of upside potential for the patient portfolio hedger.

As always, your questions are welcome.

- Pre-1933 gold coins, qualified as collectors' items
- Small gold coins serve well as barter/exchange items
- Comparable in premium to small size bullion coins
- Liquid international market
- Double-play profit potential as gold

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tulipmania

In the Netherlands in 1637, the value of tulips soared to where a single bulb could buy the best house in Amsterdam. They thought tulipmania would last forever.

Tulip bulb price

What does last forever? In a volatile world, many smart investors keep a portion of their portfolios in the asset that retains its value over time: gold. A portfolio without gold is a luxury you can no longer afford.