

NEWS & VIEWS

March, 2001

Forecasts, Commentary & Analysis on the Economy and Precious Metals

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"When it's midnight, do you know where your gold is?"

George Milling Stanley, World Gold Council

INTRODUCTION: I think you are going to gain much from this issue of *NEWS & VIEWS*. It's a definite keeper. The past month was an interesting one for gold and it encouraged some very good analysis and theory, the best of which we have hopefully memorialized here. The table illustrating gold's fundamentals below tells the bullish tale and remains our primary justification for fulfilling your needs in the present. The imminent threat of a gold shortage remains the seeker's constant companion. I would like to also take some space to do something we do not do often enough here, i.e. to thank the long list of contributors both here and at our very popular website, www.USAGOLD.com. That list includes both the professional analysts and the unsung contributors from the public at large who make our Forum and our site overall such an interesting place to visit. Hats off to all and thank you. While I'm at it, I would also like thank all those who keep these pages alive by channeling their gold business to Centennial Precious Metals. We could not do this without you. Happy Spring. My best. . . .MK

WHAT OTHERS ARE SAYING. . . .

"WE MAINTAIN A POSITIVE STANCE TOWARD GOLD'S COMMODITY FUNDAMENTALS, as shown in our accompanying supply/demand estimates. Mine production likely will edge lower in 2001, as weak prices take their toll, and we assume only a modest 1.5% increase in jewelry demand this year. We estimate that in 2001, the gap between commodity supply and demand will approach 850 metric tons (mt). While outright sales by central banks could measure 500 mt, additional central bank lending will be required to fill in the remainder of

the gap. We concede that for now, our \$290 gold price estimate for 2001--and \$325 for 2002--appear aggressive. Nonetheless, recent developments in the lending market support our long-held contention that the equilibrium gold price is well above \$300 per ounce. We continue to believe that the longer gold prices stay mired near 20-year lows, the more explosive the eventual upturn may be . . . In the meantime, we view recent developments in the lending market as bullish--and given the size of the recent short positions, current price strength may be

(Continued next page. . . .)

WORLD GOLD SUPPLY/DEMAND (Metric Tons)

	1995	1996	1997	1998	1999	2000E	2001E	2002E
Supply								
Mine Production	2,274	2,358	2,481	2,541	2,570	2,568	2,550	2,500
Old Gold Scrap	625	641	629	1,098	616	602	610	610
Production and Old Gold Scrap	2,899	2,999	3,110	3,639	3,186	3,170	3,160	3,110
Fabrication Demand								
Jewelry	2,792	2,851	3,345	3,151	3,155	3,191	3,239	3,336
Electronics/Dental/Other	416	423	464	441	455	504	500	500
Total Fabrication Demand	3,208	3,274	3,809	3,592	3,610	3,695	3,739	3,836
Fabricated Demand/Supply Balance	309	275	699	(47)	424	525	579	726
Investment Demand								
Official Coins	87	63	98	127	136	48	75	75
Bar Hoarding	306	182	324	157	252	187	180	180
Implied Western Investment (Disinvestment)	(54)	(102)	(241)	229	115	(282)	0	
Total Investment Demand	339	143	181	513	503	(47)	255	255
Total Demand	3,547	3,416	3,990	4,105	4,113	3,648	3,994	4,091
Total Demand/Supply Balance	648	417	880	466	927	478	834	981
Filling the Gap								
Net Forward Sales/Gold Loans/Option Hedging	475	142	504	97	506	(14)	?	?
Net Official Sector Sales (Purchases)	173	275	376	370	420	491	500	500

Sources: Gold Fields Minerals Services Ltd. and Salomon Smith Barney

WHAT OTHERS ARE SAYING. . . .CONT'D

exacerbated by short covering. Rising lease rates, especially when combined with a weakening U.S. dollar, should discourage price hedging by non-U.S. producers and reduce the propensity of speculators to build short positions." --- Leanne Baker, Salomon Smith Barney, 3/1/01

"DESPITE BEING CAUGHT IN POLITICAL AND FINANCIAL CRISIS, the majority of gold owners in Turkey will hold on to their metals as insurance against any eventual catastrophe, experts said yesterday." *UBS/Warburg Report*, 2/23/01

weakening relatively – it is because these countries are holding onto these government bonds that the U.S. economy is being maintained. Many people, in fact, don't realize this. I hope the U.S. will engage in efforts and cooperation to maintain exchange stability so that we will not succumb to this temptation to sell off government bonds and switch our foreign reserves to gold." --- Former Japanese Prime Minister Hashimoto, 6/97

[**ED. NOTE:** It is fitting to resurrect this quote following BOJ Governor Hayami's remark that "a strong yen is in Japan's interest."

This statement seemed to signal publicly Japan's agreement not to stand in the way should market forces push the dollar lower. Thanks to "Mr. Gresham" at the USAGOLD FORUM for bringing this to my attention.]

"AS LONG AS THE CENTRAL BANKS MAKE GOLD LOANS TO INSTITUTIONS the additional forward sales will continue to depress the gold price, thus ensuring the profitability of the scheme. What would happen if this merry-go-round were to stop? Well, since a lot of the borrowed gold has been consumed, unbundling such a huge position could be catastrophic for the institutions and the central banks . . . I am not a 'gold bug', nor a contrarian (though I do believe following popular belief often leads to disaster), but I am willing to take a gamble and gold at this time and circumstance looks a reasonable wager." --- Paul

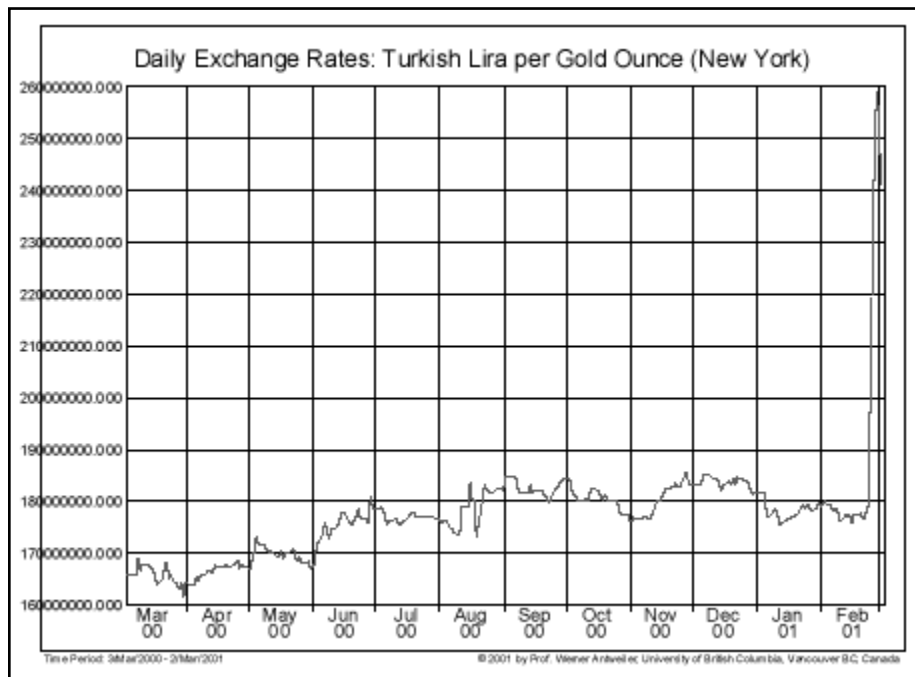
Liquorish, *the MiningWeb.com*, 2/22/01

[**ED. NOTE:** Paul Liquorish, a technical analyst, says gold could lift off in April. "The steady hand of Alan Greenspan," he says, "has suddenly developed a worrisome twitch."]

"IT'S LIKE A FOREST DURING A TIME OF DROUGHT. It's getting drier and drier every week, but until some camper comes along and drops a match, you don't have a forest fire. It doesn't mean that the forest becomes a safer place to camp just because there was no fire there in the past week." --- Comex analyst as quoted by *Dow Jones News Services* on the near-record gold short position, 2/17/01

"THE BOND GUYS THOUGHT INTEREST RATES WOULD COME DOWN. The Fed could handle the slowdown. Inflation was not on the radar screen, but all of a sudden it is." ---- Charles McMillion, MBG Information Services, as reported in *Financial Times*, 2/18/01

(Continued next page. . . .)



[**ED. NOTE:** One week after the Warburg Report was published, Turkey decided to float its currency, the lira, and gold spiked 40% in a few days period of time. The line you see at the right is the spike, not the grid border. Quite often in currency crises, gold appears relatively placid as the authorities pull out all the stops to keep the debasement from becoming public knowledge and its citizens from dumping the currency. Inevitably, however, gold does react, the public does react and usually the graph looks pretty much like the one above.]

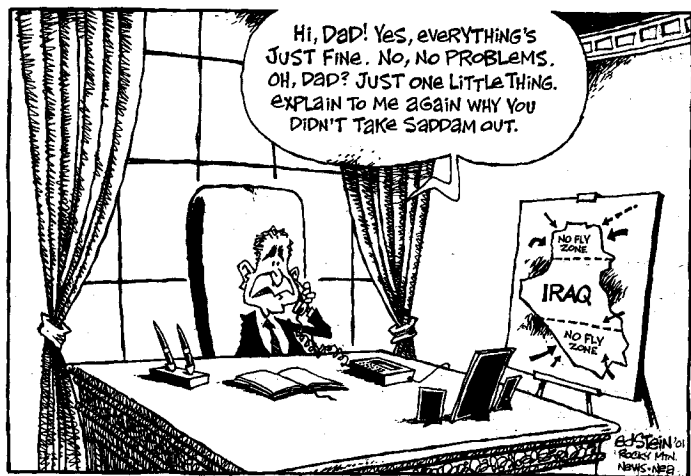
"OUR AMERICAN FRIENDS WERE PAYING LITTLE ATTENTION TO MAINTAINING THE VALUE OF THE U.S. DOLLAR as an international key currency, and we were tempted to sell off (bond holdings). In terms of funds, it is true that we have not really made the right choice, shall I say, or advantageous choice. By selling Treasury bonds, we might increase our gold holdings. That is an option we had. Among countries around the world, there are many who hold their foreign currency reserves in the form of U.S. Treasury bonds. As long as they continue to maintain the U.S. government bonds--even when the U.S. dollar is

WHAT OTHERS ARE SAYING. . . .CONT'D


[ED. NOTE: Mr. McMillion's comments came after the announcement that U.S. producer prices in January had risen 1.1% (13.2% annualized). This increase will be taken more seriously than previous jumps in the inflation rate in that it spreads beyond the energy sector into a wide variety of essentials.]

"IN AN OUTSTANDING COMMENTARY ON THE SUBJECT by Douglas Pollitt, of his namesake Toronto brokerage firm, he says: 'An ever-larger supply of lent gold is needed to fill the widening supply-demand gap and to ensure that the market remains depressed and investors remain disinclined to call in existing gold loans.' He highlights three conditions that could turn a 'tinderbox' market into a raging gold inferno--a drought of official sector lending; faster reductions of new supply; and US dollar instability. One is sufficient for ignition, three would cause a wildfire that turns 1980 into an amateur stage production." -- Tim Wood, *Australian Financial Review*, 2/17/01

"THE G-7 WILL SAY THAT THE WORLD ECONOMY WILL PERFORM WELL IF OIL PRICES remain at current levels, said the official, who can't be further identified under briefing rules. The statement will contain three sentences on currencies, emphasizing the importance of allowing markets to determine the value of currencies, the official told reporters." -- *Bloomberg*, 2/17/01



[ED. NOTE: Is it now official that the strong dollar policy is dead? The forex markets will have the final say, but the Bush administration seems determined to pursue a new dollar policy apart from the "Rubinesque" policies of the past. Usually in these annual confessionals among finance ministers and central bankers little of substance reaches the public venue. The fact that the summarizing statement will "emphasize the importance of allowing markets to determine the value of currencies" illustrates--it seems irrevocably--the determination of the Bush administration to pursue its own dollar policy. That policy could



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very well be "no policy."]

"DEMAND FOR GOLD ROSE A RECORD 11% TO 894 TONNES DURING THE FOURTH QUARTER OF 2000 in the world's 27 main markets, the World Gold Council said today. This growth offset a weak first three quarters, leaving demand for the year little changed at 3281 tonnes. The WGC is doubling membership fees to fund a marketing campaign to drive up the gold price, now at a 16 month low of \$259.90 a troy ounce. The campaign will feature Darcey Bussell bedecked in gold jewellery. In India, the world's largest gold market is ahead of 1999." --- *This Is London*, 2/14/01

"IN THE AFTERMATH OF THE 1995 KOBE EARTHQUAKE, television cameras focused on a distraught housewife as she scabbled through the burnt-out rubble of her home. She pulled a cashbox from the charred wreckage and opened it. All the paper money inside had been burnt to a crisp. But a gold ingot was untouched by the flames. This powerful testimony to gold's indestructibility led to sales spiking upwards in Japan. Now a few investment professionals are whispering gold might be worth a look again--as a hedge against a potential earthquake brewing on global financial markets. 'It is an insurance policy,' said Rhona O'Connell, a metals market analyst at Canaccord Capital in London. 'I prefer to think of gold not as something that makes you money, but as something that stops you losing money' . . . A financial disaster, such as a US bank taking a big hit in the fallout from the California power crisis, would be an example of an event which could suddenly make gold a hot investment." --- *South China Daily Post*, 2/5/01

"BY THEN [AMIDST A DE FACTO DOLLAR DEVALUATION] at the latest, investors will have begun to have second thoughts about the soundness of paper money and the integrity of central banks and will probably accumulate gold. In fact I don't believe (Continued next page. . .)

WHAT OTHERS ARE SAYING. . . . CONT'D

that investors will wait for this scenario to play itself out but will buy gold sooner." --- Investment Analyst, Mark Faber, as quoted in the *South China Daily Post*, 2/5/01

"GOLD IS INTERESTING IF PEOPLE REALLY DID LOSE CONFIDENCE. Then you might see some desire to seek an alternative. It is a very long shot [but] we live in a very curious time and very curious markets." --- James Williams, chief strategist for Baring Asset Management (in naming gold his wild-card investment for the year), as reported in the *South China Daily Post*, 2/5/01

"WHEN WAS IT LAST TIME YOU BOUGHT GOLD? Can't remember? You must have been buying it too often to keep note of it! Most Indians have this habit. Buying gold regularly. It doesn't matter whether this investment is appreciating or giving good returns. This commodity is a must for everyone's portfolio. Why? It's a must in every portfolio. It is a low risk portfolio diversifier.' says Mr Derrick Machado, Regional Director, World Gold Council. 'The liquidity of this investment is too comforting,' adds Jacob Kurian, COO, Tanishq. Compare it with any other investment like real estate, stocks, mutual fund, fixed deposits and gold is a clear winner. And mind you, it is accepted anywhere in the world, without much hassle." --- *Times of India*, 2/5/01

"ACCORDING TO USUALLY RELIABLE MARKET SOURCES, THE BANK OF ENGLAND HAS NOT BEEN LENDING GOLD OVER THE PAST FEW DAYS. This is unprecedented as its short-term lending is considered a vital tool in the smooth running of the London market. The Bank's explanation for this (confidentially) is that many client central banks had lent out for longer periods than normal around the Washington Agreement (WAG) period, and that as the loans matured they were not being renewed, creating a temporary tightness in liquidity. The market is regarding this

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explanation with some suspicion, however, suspecting that more may be involved. It has indeed been suggested that another joint central bank move on gold lending may be imminent, cutting the amount of gold available for lending. We have no firm evidence for such a move. However, if this were to happen, then lease rates would soar; non-WAG countries have increased their lending substantially in recent months and it is unlikely that they could fill any liquidity gap produced. In these circumstances, a price spike could easily develop; shorts would be quick to cover while other borrowers would be forced to buy as the rolling over of existing loans became more difficult to achieve."



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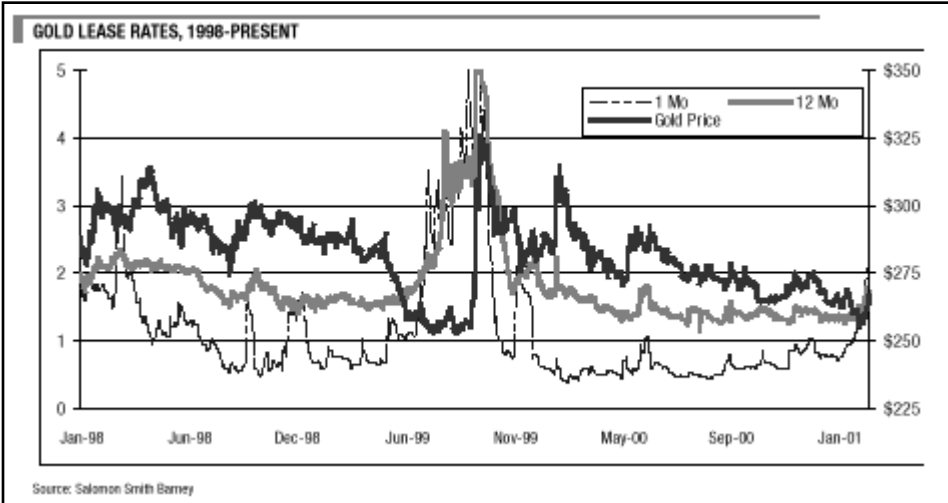
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WHAT OTHERS ARE SAYING. . . .CONT'D

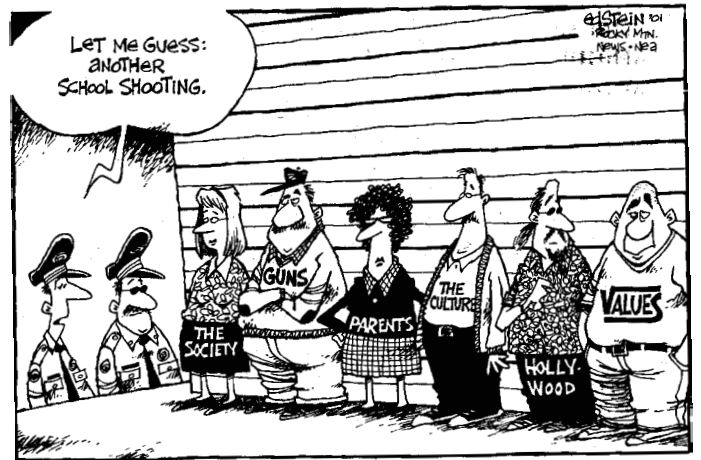


[ED. NOTE: The above quote is part of a correspondence (dated 2/22/01) intended for gold producers and bullion banks attributed to the World Gold Council. Neither confirmed nor denied by the WGC, the correspondence explains why gold lease rates are moving higher (often a precursor to higher gold prices) and secondly why gold didn't move up in the year and a half since the Washington Agreement. The graph above illustrates the relationship between gold lease rates and the gold price.]

SHORT & SWEET. *CBS MarketWatch* reported a record \$13 billion outflow from stock mutual funds in February 2001--the first net outflow since the Asian Contagion crisis of 1998. *The Denver Post* reports that Denver's Janus Funds and Berger Funds, the mega-mutuals that became the darlings among well-heeled investors, showed a whopping \$44 billion decline in assets under management in February -- the result of a one-two combination of pervasive weakness in stocks and investors heading for healthier climes. Most of that money headed for fixed income and money markets, but some of it has also made its way across the street to USAGOLD/Centennial Precious Metals. James Turk (*Free Market Gold & Money Report*): "If the base continues to hold, a rally will probably take Gold above its 4-year downtrend line. Once resistance at \$325 is taken out, the next stop is \$380, which was last seen in November 1996. Why do I mention this \$380 price? One reason. I think this price will be reached in 2001. Everyone who understands Gold's value and usefulness will this year finally begin to be rewarded for their patience and wisdom in accumulating the metal at current bargain basement prices." "The Federal Budget Surplus Crisis has become so severe," says Dave Barry, "that there is now serious talk in Washington of letting you keep slightly more of your own money. That is correct: The government has been taking in so much of your money that EVEN CONGRESS is having a hard time spending it all. Not that Congress isn't trying! In fact, in recent years Congress, faced with the alarming buildup

of your money, has come up with some truly creative things to spend it on. My favorite is the Greyhound Bus Museum . . . I'm sure that every taxpayer--especially every taxpayer who has ever had to take a long bus trip sitting near the toilet--often thinks: 'I hope and pray that at least some tiny portion of the tax money I worked so hard for is used to help finance a bus museum in a city that I will probably never visit unless I happen to be in a plane that crashes there!'" Speaking of which, keeping with our custom to inform you how much the government is going into debt to finance "the surplus," our regular

visit to the website of the Commissioner of the Public Debt informs us that on 2/28/01 the national debt stood at \$5.735 trillion, \$61 billion higher than it did at the close of the government's fiscal year last September--just five months ago! With stock market woes and inflation's return grabbing national headlines, the energy crisis has momentarily dropped off the radar screens. That might be premature. *Bloomberg* reports that "Governors of 10 Western states said California's power crisis is likely to spread, forcing higher



electricity rates and perhaps more scattered blackouts that could slow the national economy. 'This crisis is not over,' Idaho Governor Dirk Kempthorne said at an energy summit in Portland, Oregon. 'Rates may in fact go through the roof'. . . Other states in the West could follow California by having blackouts this summer, Oregon Governor John Kitzhaber said. Power shortages could endure for up to five years, he said. J.P. Morgan suggested yesterday that gold market participants start building a long position, looking for a rally back to \$269--\$276/oz. resistance. The London Bullion Market Association, whose membership comprises the

(Continued next page. . .)

SHORT & SWEET. . . .CONT'D

world's largest gold bullion dealers, reports January's daily clearing figures were down 16.7% to 19.7 million ounces, which is further evidence of a potential unwinding of the gold carry-trade. The LBMA numbers have been dropping precipitously ever since the Washington Agreement limiting gold bullion sales and leases was signed by the major central banks. This could be bullish for the long-term gold price. The gold carry-trade--which depends for success on selling future mine production (sometimes 7 to 10 years' worth) today --is considered by many to be the prime deterrent to higher gold prices. What if they called a recession and no one came? Donna Zerwitz, National Bureau of Economic Research, Inc. says: "We are not in a recession. There is not enough data to point to a recession.". "A booming economy," says Sally Beatty of *The Wall Street Journal*, "helped make business news hot. Now a slowing economy is cooling it off. The audience for CNBC's flagship 'Market Wrap' fell more than 8 percent during the first three weeks of January compared with the year-earlier period, Nielsen Media Research data show. CNBC's midday 'Power Lunch' was down 20 percent in the same period. And the audience for CNN's 'Moneyline,' one of the network's most profitable shows, dropped about 13 percent in the first few weeks of January." With that, we will bring this edition of *NEWS & VIEWS* in for a landing. We continue to get a flood of compliments and encouragement from our readers on both this effort and our USAGOLD website--which we can now safely call an unqualified smash hit. (Please have a look at the ad next door to see a few of the reasons why.) We thank you again for your support both psychologically and as clients of the firm. Happy trails, my friends and fellow goldmeisters, until we meet again. MKosares

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Why Gold, Why Now?

“Every once in a while one can almost sense that something is wrong in the financial system. We are at one of those moments. The system everywhere is groaning and quaking under the stress that continues to build. I believe that a financial crisis is in the making.” -- James Turk

Over the past several years, a series of financial shocks has stressed the world economy and sent central bankers and government officials scrambling for solutions:

- 1987. . . the worldwide stock market crash
- 1990. . . U.S. S & L and banking crisis
- 1994. . . the Mexico peso collapse
- 1997. . . the Asian Contagion
- 1998. . . LTCM; the Russian ruble meltdown
- 2000. . . the Nasdaq col-lapse
- 2001. . . U.S. energy crisis/ systemic bank risk



The financial system continues to limp along and dodge bullets, but at what point does it crack under the stress and start taking on water? When do all the maneuvering, the bailouts, the money-printing and moral hazard quick-fixes collapse in a full-blown economic and monetary crisis? When does the one incident occur which proves to be the straw that breaks the camel's back? And, more importantly, where would that event put you, your family, and your portfolio should it occur?

There's no question that the modern investment portfolio needs a rational hedge now more than ever -- an anchor to keep it from being swept away in turbulent seas. For centuries that traditional anchor has been, and still is, gold.

At a time when every major economy in the world without exception relies on a debt-based fiat currency, gold's role as the ultimate fiduciary asset and portfolio safe haven is probably more important now than it has ever been. Consider these reasons:

- Gold is the only primary portfolio asset that is not simultaneously someone else's liability.
- Gold does not depend upon another individual or institution's performance for value.

With each passing day, the ranks of gold owners grow larger and, as long as the threat of currency debasement and systemic breakdown exists, the market for gold will continue to grow. To be sure, record worldwide gold demand reported over the past several years is not occurring in a vacuum. It is occurring because so many investors around the world recognize that there is a systemic problem underlying all the financial shocks listed above. Whatever you do, don't be among the ones who failed to diversify and then suffered severe consequences when the unthinkable actually did happen.

Dr. Moneywise says:
 My oh my oh my!! Just look at thisAnd what might be next??
 When it comes to owning gold, 'tis better to be a Day early, than a Moment late.

Rhona O'Connell of Canaccord Capital London summed up the current investor attitude toward gold: "It is an insurance policy," she said . "I prefer to think of gold not as something that makes you money, but as something that stops you losing money."

Adding urgency to the equation, long-time portfolio advisor, Marc Faber says: "By then at the latest [as a de facto dollar devaluation begins], investors will have begun to have second thoughts about the soundness of paper money and the integrity of central banks and will probably accumulate gold. In fact I don't believe that investors will wait for this scenario to play itself out but will buy gold sooner."

To gear up your portfolio, you must become disciplined, determined, and methodical. If you haven't diversified your portfolio with gold, begin now. At near 20-year lows, price is not an issue, but protecting what you've gained in other endeavors is. If you have begun the diversification process, work steadily toward the percentage diversification you have set as your goal. I recommend a gold diversification of 10% to 30%. How far you go should be directly related to your level of concern.

When you get ready to buy gold, please contact us at USAGOLD/Centennial Precious Metals. We have been helping serious investors diversify their portfolios rationally for nearly 30 years and we can help you. The disciplined, well-diversified investor will most likely be the successful investor during the first decade of the 21st Century.

----- Michael J. Kosares

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the market almost as quickly as they appear. This is the popular Wilhelm II mintage from 1890-1913 that helped so many German families through the Nightmare German Inflation which occurred a decade after the coin's last year of issue, hence the nostalgic attachment. The Wilhelm II German 20 Mark has special meaning with the descendants of those who suffered through that monetary debacle ending with the rise of



Adolph Hitler. This item is also generally popular with those with an interest in financial history. Hopefully at 1000 pieces, we have enough to get us past the first week of the offering. Orders, as always, will be filled on a first-come, first-served basis. The premium is still low for this item; it will go up and down with the gold price; and the liquidity is strong.

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