

NEWS & VIEWS

December, 1999

Forecasts, Commentary & Analysis on the Economy and Precious Metals

Celebrating Our 26th Year in the Gold Business / Centennial Precious Metals/ Since 1973

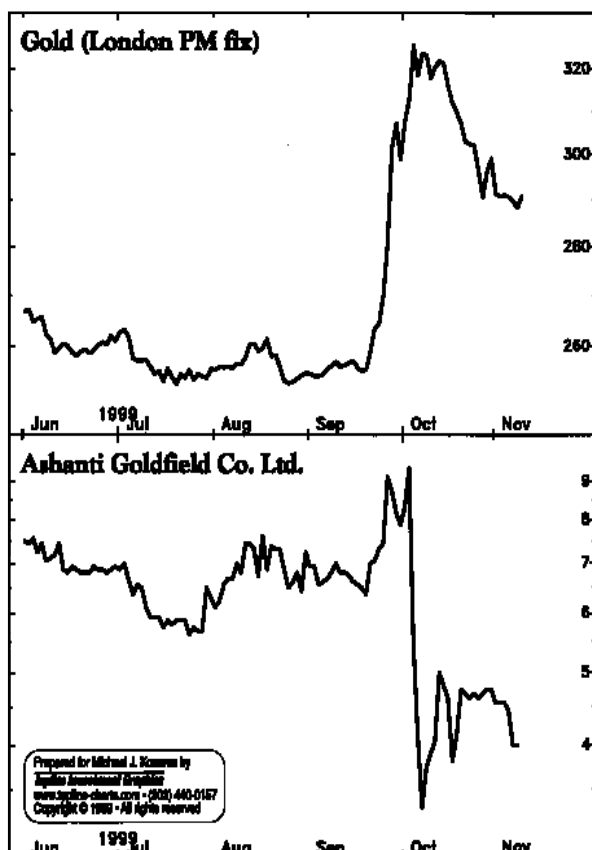
"Let there be peace on Earth and let it begin with me."
Traditional Children's Christmas Carol

OUR CHRISTMAS ISSUE

The bullish fundamentals for gold grace our Christmas issue this year. As the year draws to a close, an important study by Leanne Baker at Salomon Smith Barney surfaces to suggest that the new millennium could be a good one for gold owners. We are happy to include excerpts from that study as our featured article this month. Leanne says the the new bull market in gold has only just begun. Along with Ms. Baker's studious observations, we have included a grouping of important insights from various analysts and market observers in our GOLDNOTES department. We think you will agree with the views expressed in the excerpt from gold bug and best-selling novelist, Arthur Hailey, as well as the interesting quote from Austrian School of Economics stalwart, Dr. Hans Sennholz. We think you are going to gain a great deal from our Christmas issue and we invite your comments.

We have just completed a record year at Centennial Precious Metals and would like to thank all of you for being our clients. We pledge ourselves to the same fine service next year that has made us your favorite gold broker in years past. If Ms. Baker's and our other contributors' assessment of the future hold true, Year 2000 could be an exceptional one for the yellow metal. All of this very neatly leads us into this month's first GOLDNOTES entry...

**HAPPY HOLIDAYS TO ALL.
MAY THE SEASON BE GOLDEN.**



GOLDNOTES

We look at the precious metals like fire insurance. Only an idiot would hope to make money on a fire. Since every time you move, you lose about one-third of your possessions, I figure three moves equals one fire. We've had a clear upside breakout. We are now in the breakout pullback. I am guessing that gold will probably hang around the \$300 area for a while. There are two important aspects. The big news, in the short term, is that there is a huge short position out there that is trapped. Lots of them were forced out by margin calls and had to cover, which pushed the price up. That was part of the reason for the violence of the upside breakout. You have not even a full unwinding of the carry trade. There are a lot of these gold-mining companies that have sold forward in the futures' market. So, I think there is a latent pool of buying. I think that gold will drift down, and all of a sudden, it will have a wild upside rally for no reason. It will probably be because someone is deciding to cover. So, I am not looking for a big crash, and I will be very surprised if there is a big drop in gold prices...

When you have mass fear, the kind of mass fear that I laid out in my book, "Mass Psychology," *I think you are going to see prices of gold that simply nobody would believe today. I think there will be a stampede into gold and silver.* There is an ongoing, subtle, chronic currency crisis going on in the world. I laid this out in my second book, "The Invisible Crash." That was how I was able to predict the currency crisis in Asia, two years before it happened. I am, therefore, looking for additional currency crises. Eventually, it will hit the U.S. dollar. When it does, the world will change forever. At that point, when people are afraid to hold dollars worldwide, I think there will be a stampede of something else. I am skeptical that it will be just another paper currency....When I first recommended gold at \$35, and I said it would go over \$400, people wanted to have me arrested. I have learned my lesson, but I think that gold will go far higher than anyone else in world believes.

----- JAMES DINES IN A STOCKHOUSE INTERVIEW

According to a (recent) *Reuters* report, "Ashanti chief executive Sam Jonah said Ashanti would be actively managing its hedge book but intended to retain the current overall level." In other words, we have the very odd situation of a gold mining company saying a prayer each night that the price of gold will not go up and force it out of business. My fellow meisters, if you are looking for an anti-gold investment, you might look into Ashanti whose stock chart is negatively correlated to the gold price. (Please see chart to left.) When gold goes down, its stock price goes up; when gold goes up, its stock price goes down. You might ask yourself

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GOLD NOTES, CONTINUED FROM PAGE ONE

a question though: How do I win as a stockholder in a gold mining company that has bet against the commodity it produces and whose future depends on that commodity's demise? All the foregoing of course is tongue-in-cheek commentary on how Ashanti's situation impacts the gold bullion market and not intended to be stock advice. For that you need to contact your local stockbroker.... By the way the bottom line on the Ashanti situation is this: Those call positions haven't gone away. Somebody is holding a winning hand and might like to pull that pot from the center of the table before the game's over. Ashanti's market position has temporarily improved by about half -- since it was some \$500 million under water 30 days ago and was staring a \$270 million margin call in the face. If gold goes back up from here, Ashanti is back in the soup....or is that fire.

---USAGOLD MARKET REPORT (11/4/99)

Ask central bankers these days what they are there for and they will say it is to avoid systemic risk. They may have various responsibilities for economic management, but what unites them is the need to stop the system behaving in such a way as to threaten the viability of financial institutions... It is all the more ironic, therefore, that these same central bankers seem to have created a major systemic problem with their action two weeks ago to try to stop the slide in the gold price. Seeing the price at its lowest for years, they decided to bolster it by placing a restriction on gold sales. But instead of stabilising the price it sent it soaring. What the bankers failed to appreciate was that after years of decline a whole industry had built up with speculators selling gold they did not own in order to profit from further declines. So when the price reversed overnight, huge numbers of people were

caught short. The result was a surge in price that has caused such instability that some long-established mines have been effectively forced out of business.

The consequences in the financial sector are rumoured to be even more brutal. Indeed, there was a tale doing the rounds in London yesterday that *Goldman Sachs was \$2 billion in a hole*. Needless to say, it is only a totally unconfirmed rumour and not the sort of thing one would expect them to comment on. *Nevertheless, it seems likely that some firms are in a dreadful mess. The central bankers have unwittingly set off their greatest nightmare.* The abrupt reversal in the price of gold poses, if not a systemic risk, something uncomfortably close to it for a lot of firms.

To appreciate the potential force of the coming monetary storm, a basic understanding of gold, gold banking, inflation and deflation is essential. Forget the CPI and other such price indices. They are generally lagging indicators of prices in certain sectors of the economy. What is more, the CPI is now subject to so many "adjustments" that its usefulness except perhaps as a tool to reduce government expenses tied to it (e.g., Social Security payments) is suspect. Forget, too, most blather about whether gold does better in an inflation or a deflation. Gold is insurance against severe currency or credit destruction, whether its precipitating cause be inflation or deflation.

--- ANDREW HILTON /LONDON DAILYTELEGRAPH

EDITOR'S NOTE: This was excerpted from an in-depth article that caused considerable internet discussion the day it appeared and then just as suddenly disappeared amidst cries of foul play.

An Australian-Egyptian company is planning an ambitious £37 million project to mine gold in Egypt which once supplied the precious metal for ancient pharaonic treasures, including those of Tutankhamun. It will make the country one of the ten top gold producers in the world, company directors said. Behind the project is an Egyptian geologist, Sami Raghy, who was inspired by a 3,200-year-old papyrus map showing gold mine tunnels. It is believed to have been sketched by King Seti I. He was the father of Rameses II, a prolific builder and the most celebrated of all the Pharaohs.

"Every king was buried with a cache of gold and it was written where that gold came from," Mr Raghy said. "It's the oldest known geological plan in the world." Using the map as his guide, Mr Raghy, who has been dubbed Egypt's Indiana Jones, is leading a 40-strong team of Egyptian and Australian prospectors in the mountainous eastern desert at Sukari, 500 miles south of Cairo. Even in October temperatures rise above 30 degrees (celsius). It's very tough work, but I love exploring," Mr Raghy said.

---MICHAEL THEODOLOU / FINANCIAL TIMES

The bullion banks and their customers were not caught wrong-footed by a free gold market. They were caught out of position by the first attack in a monetary war they didn't expect and on terrain that they thought they controlled. The full story of how Anglo-American manipulation of the gold market led to a counterattack by the European central banks is yet to be told, but Ashanti, Cambior, and their shareholders are among the first victims. Before the gathering monetary storm is over, there will be many more casualties, caught in the cross-fire as nations fight a currency war, the likes of which the world has never seen.

----REG HOWE, THE GOLDEN SEXTANT

A NEW MILLENNIUM GOLD RUSH

THE BULL MARKET IS JUST BEGINNING

BY LEANNE BAKER/ SALOMON SMITH BARNEY
EXCERPTED FROM THE FULL STUDY BY THE SAME NAME.

OVERVIEW:

The European central banks announced on September 26 that they will limit annual gold sales to 400 metric tons (mt) over the next five years, and that they will not increase their gold lending or futures and options beyond current levels. We believe that the positive implications of the announcement are not yet fully appreciated by the market--and perhaps not even by the central banks themselves.

The gold market has grown utterly dependent on central banks to provide liquidity for short sales and to keep commodity supply and demand in equilibrium.

Our bullish thesis on gold has been predicated on the massive imbalance between mine production/scrap supplies and fabricated gold demand. The gap has been filled through the 1990s by steady central bank sales and increased lending--which has provided the liquidity for producers to sell forward and for speculators to go short. We have argued for some time that the market's complacency could be shattered by any action that would cause central banks to curtail liquidity. The magnitude of the new bull market in gold will be determined, in the short term, by the extent of outstanding central bank gold lending--a subject of great dispute within the industry--and the timing of the producer and speculator short-covering that is required to unwind unprofitable positions. Ultimately, much-higher prices are needed for the gold market to achieve physical equilibrium.

Guilt by association--hedging debacles hurt all gold producers. Two highly visible gold hedging debacles--those of Ghana-based Ashanti Goldfields Ltd. and Canadian producer Cambior Inc.--have made investors understandably wary about the hedging minefields that could lie ahead for other gold producers. As gold prices appreciate further, these concerns likely will be accentuated.

We are bullish on gold from current levels, with price estimates of \$350 and \$375 per ounce (average) for 2000 and 2001, respectively.

THE SUMMER OF GOLD'S DISCONTENT

It will be months--probably even years--before the gold market will be able to unravel all of the causes and implications of the recent, dramatic turnaround in the yellow metal's fortunes. Suffice it to say that in retrospect, the Bank of England's May 7 disclosure of its intent to sell 415 mt of its 715 mt in gold holdings--complete with timetable of five bimonthly 25 mt auctions commencing in July 1999--marked the beginning of gold's final capitulation to the bears. Until then, the metal had been showing signs of pushing up toward the elusive \$300 per ounce level. Instead, after the U.K. announcement, gold prices tumbled by 13% before finding a bottom in late August. A poorly bid first auction on July 6 spurred a final bout of panic producer hedging.

CENTRAL BANK AGREEMENT MARKS WATERSHED

In a surprise announcement on September 26 following the G-10 meeting, key European central banks committed to limits on gold sales and lending. Specifically, 15 central banks including Eurosystem members plus the U.K., Sweden, and Switzerland announced they would cap gold sales at 400 mt (12.8

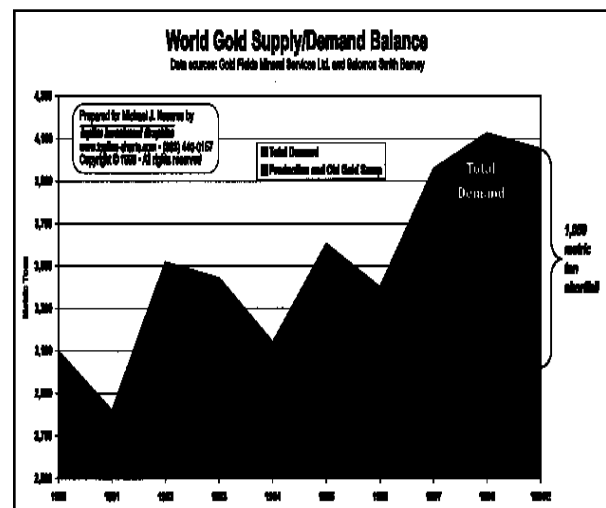
million ounces) per year for five years and freeze gold lending and futures/options activity at current levels. This provided short-covering and speculative impetus to the fledgling rally that began after the U.K. auction--and, in one fell swoop, swept aside the bearish preoccupation with official-sector supplies. As liquidity dried up in the short-covering scramble, gold prices, lease rates, and option volatilities spiked--with disastrous consequences for hedge funds, traders, speculators, and producers caught short. From the summer lows, gold prices surged to highs near \$330 per ounce. Lease rates spiked so much that gold shifted into backwardation--in which the spot price traded at a premium to forward prices--and option volatilities expanded to as much as 45%-55%.

While the motives behind the G-10 initiative will be debated exhaustively--whether to support reserve values, signal departure from dollar hegemony, or capitulate to producing country pressure--we believe the effect on gold bullion and equities is unequivocal--it's positive.

We believe the central bank agreement fundamentally alters the landscape for gold. The 15 signatories account for roughly 50% of official sector stocks; adding other nonsellers and nonlenders, such as the United States, the IMF, and the Bank of Japan, lifts the total to nearly 90%. While the 400 mt in annual sales is toward the high end of the actual sales range for the 1990s, it does include the ongoing U.K. sales (365 mt remaining) and possible Swiss sales (1,300 mt).

HIGHER PRICE REQUIRED TO BALANCE MARKET

Prior to the recent rally, we believed that there was a structural deficit in the gold market--physical demand in excess of mine supply plus scrap of some 1,050 mt. Depending on the view of the true level of central bank lending, deficit estimates as high as 2,000 mt are credible. These deficit estimates amount to 25%-40% of total



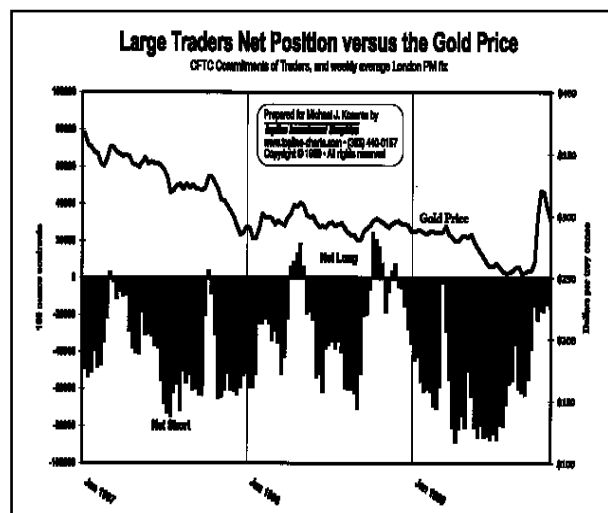
demand. With the official sector retreating from center stage, we believe the key to gold's price path is how, on what terms, and over what period of time the market will return to equilibrium. It is clear that a massive readjustment process has just begun.

Looking ahead, we expect rising gold prices to crimp jewelry consumption while boosting investment demand. Typically, bull markets for gold are characterized by increasing investment demand--which accounted for 50%-60% of total demand in the 1979-80 rally, for example, and roughly one-third of total demand in the 1986-87 period--at the expense of jewelry demand.

LEANNE BAKER, continued

THE GOLD HEDGING DEBACLE

The sudden rally in gold prices has punished heavily hedged mining companies, as well as traders, dealers, and speculators caught short. Volatile price behavior and tightness in the markets for borrowed gold--manifested in record-high lease rates and intermittent backwardation--have exacerbated the situation. Reports of staggering losses on speculative short-gold positions and carry trades are rife, and we believe there is more to come. Common hedging techniques--touted as offering virtually risk-free downside protection as well as upside exposure for producers sophisticated enough to grasp the new orthodoxy--already have proven disastrous for several companies. Others simply are being pummeled by equity investors who demand leverage to gold and are not inclined to accept management assurances or to parse vaguely composed position statements to discern top-line revenue. Just as low, stagnant gold prices imposed cost discipline on producers, the long-term benefits of the car-



nage in the gold derivatives arena likely will be renewed emphasis on transparency and critical assessment of financial risk.

We have long argued that derivatives positions in gold were lopsidedly short and disproportionately large for the underlying market. At its core, our positive view on gold in 1999 has been based on a belief that gold market liquidity was less than participants blithely assumed--and that when speculator and producer shorts were inevitably forced to cover, the results could be spectacular....

The carnage in the gold derivatives market resulting from a 25% jump in prices is astounding to us, especially against a backdrop of double- and triple-digit percentage gains in oil, copper, aluminum, and nickel; resurgent inflation signals; dollar weakening; and looming Y2K concerns. "Stress testing" of portfolios and "Value at Risk" (VAR) measurements captured only normal market and trading variability and failed to provide a meaningful assessment of comprehensive risk in the event of an "exogenous" shock--such as the European central banks' announcement. Particularly nettlesome were complex structured derivatives--forward contracts with embedded contingent options--and leveraged option strategies that could not be unwound quickly. The practice of selling out-of-the-money call options to finance put purchases backfired as well. Even basic spot deferred contracts were tarnished as gold breached reference prices and climbing lease rates eroded forward premiums. We question whether managements understood their exposures and conclude that any positions put on this summer in a \$250-per-ounce gold price environment were misguided

at best, and disastrous at worst.

SFAS 133 -- NEXT YEAR'S ACCOUNTING NIGHTMARE

FASB has written a new accounting standard governing the treatment of derivative instruments and hedging activities in financial statements. Implementation was recently postponed one year to June 15, 2000--and debate continues as to the impacts of this complex, technical standard on company income statements, balance sheets, and actual hedging behavior. SFAS 133 will require different accounting treatment for derivatives considered "hedges" and "non-hedges"--with most related activities by mining companies qualifying as "cash flow hedges." However, many derivatives strategies will fail to qualify for hedge accounting--and thus to the extent that these are used to offset an economic risk (the gold price), mark-to-market impacts to net income will not be matched by recognized period-to-period changes in the underlying exposure (the value of reserves). This will result in greater net income volatility.

Important departures from current practice will be marking-to-market of the *time value* of options through the income statement--rather than straight-line amortization of the premium paid or received. Forward contracts will be treated more favorably--with mark-to-market fluctuation flowing through equity on the balance sheet. However, this will introduce equity volatility and has the real potential to throw off credit ratios--complicating the lives of analysts, bankers, and shareholders. Under 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.

HEDGE BOOK MARK-TO-MARKET VALUES PLUMMETED

Rising gold prices, lease rates, and volatilities have also served to crush the mark-to-market value of company hedge positions--most of which have swung deep into the red since the second quarter reporting cycle. The symmetry is intriguing--that much-touted premiums to spot in previous periods are often completely offset by negative mark-to-market values now, revealing that many programs amounted to simply selling financial risk. The damage is compounded by the fact that price premiums were earned when gold prices were low, group equities were out of favor, and share-price multiples contracting--while the upside is surrendered now that investor interest is high and multiples expanding for gold-leveraged names...

As spectacular as some of the negative mark-to-market numbers are, it is important to recognize that under current U.S. GAAP, the value of derivatives is shown as a footnote to the financial statements and does not flow through the balance sheet or income statement. With the implementation of SFAS 133 next year, this will all change. In severe cases, counterparties can demand that mining companies post cash margin to cover the paper loss--exactly what happened to Ashanti Goldfields, whose hedge book plummeted from positive \$300 million in value during our July site visit to an astounding negative \$570 million at \$325 gold.

OUR THANKS TO LEANNE BAKER AND SALOMON SMITH BARNEY FOR GRANTING PERMISSION TO REPUBLISH EXCERPTS FROM THIS IMPORTANT STUDY.

FROM "THE MONEYCHANGERS"

BY ARTHUR HAILEY

It was, Alex thought, as if the toppling of a giant had brought home the realization that other giants, once thought invulnerable, could topple too, that neither individuals, not corporations, nor governments could escape forever the simplest accounting law of all -- that what you owed you must one day pay.

Lewis D'Orsey, who had preached that doctrine for two decades, had written much the same thing in his latest "Newsletter." Alex had received a new issue in the mail this morning, had glanced at it, then put it in his pocket to read more carefully tonight. Now he took it out.

"Do not believe the glibly touted myth," Lewis wrote, "that there is something complex and elusive, defying easy analysis, about corporate, national, or international finance.

"All are simply housekeeping--ordinary housekeeping, on a larger scale.

"The alleged intricacies, the obfuscations and sinuosities are an imaginary thicket. They do not, in reality, exist, but have been created by vote-buying politicians (which means ALL politicians), manipulators, and Keynesian-diseased 'economists.' Together they use their witch doctor mumbo-jumbo to conceal what they are doing, and have done.

"What these bumlbers fear is our simple scrutiny of their activities in the clear and honest light of common sense.

"For what they--the politicians, mostly--on one hand have created is Himalayas of debt which neither they, we, nor our great-great-grandchildren can ever pay. And, on the other hand, they have printed, as if producing toilet tissue, a cascade of currency, debasing our good money--especially the honest, gold-backed dollars which Americans once owned.

"We repeat: It is all simply housekeeping--the most flagrantly incompetent, dishonest housekeeping in human history.

"This, and this alone, is the basic reason for inflation."

There was more. Lewis preferred too many words, rather than too few.

Also, as usual, Lewis offered a solution to financial ills.

"Like a beaker of water for a parched and dying wayfarer, a solution is ready and available, as it has always been, and as it always will be.

"Gold.

"Gold as a base, once more, for the world's money systems.

"Gold, the oldest, the ONLY bastion of monetary integrity. Gold, the ONE source, incorruptible, of fiscal discipline.

"Gold, which politicians cannot print, or make, or fake, or otherwise debase.

"Gold which, because of its severely limited supply, establishes its own REAL, lasting value.

"Gold which, because of this consistent value and when a base for money, protects the honest savings of all people from pillaging by knaves, charlatans, incompetents, and dreamers in public office.

"Gold which, over centuries, has demonstrated: "--without it as a monetary base, there is inevitable inflation, followed by anarchy;

"--with it, inflation can be curbed and cured, stability retained.

"Gold of which Americans once stated proudly

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their dollar was 'as good as.'

"Gold to which, someday soon, America must honorably return as its standard of exchange. The alternative --becoming clearer daily--is fiscal and national disintegration. Fortunately, even now, despite skepticism and anti-gold fanatics, there are signs of maturing views in government, of sanity returning...."

(EDITOR'S NOTE: Author, Arthur Hailey, attached this excerpt from THE MONEYCHANGERS as an attachment to a letter he sent to Chris Thompson, chairman of South Africa's second largest gold producer, congratulating him on his highly visible defense of gold and the gold mining industry. Mr. Hailey's book is scheduled to be re-published in May or June, 2000. While praising Thompson and Gold Fields for its hedging practices, Hailey also heavily criticized Barrick Gold for its hedging practices including massive forward sales, and announced the sale of all his Barrick holdings in protest of these practices. Forward selling by mining companies is blamed by many analysts for being a major contributor to the long bear market in gold.)

Current Prices		Since last issue.....
11/10/99		
Gold	299.10	- 20.90
Silver	5.13	- 0.47
Platinum	426.90	+ 1.90

Comment: After its intial breakout, gold retraced to support at \$286 and appears to be in the next wave higher. Silver is not participating in this rally at all. Platinum continues to benefit from Russian problems.

FINANCIAL CRISIS LOOMS

“It (the dollar standard) is a fiat standard, not backed by gold or silver, and not redeemable in anything but government paper. It was born in default and crisis and, to this day, has suffered five major international crises, which inflicted much economic hardship and brought social upheaval and political turmoil to many developing countries. The next financial crisis is clearly visible on the horizon: the Y2K computer crisis. According to some analysts, it may be the worst of all, leading to deep recession and financial disruption. It may prove to be the (death) knell of the dollar standard....

“At this time a gold standard has few friends and advocates. It limits the power of politicians and officials to manage and manipulate the stock of money. It denies them the means to ‘stimulate’ economic activity and renders deficit spending rather difficult. The remarkable stability of gold serving as money lends stability to economic life, which made it the monetary standard throughout the ages. In fact, gold has been wealth and money since the dawn of civilization. Most of the gold won from the earth during the last 5,000 years can still be accounted for in man's possession today. There is no shortage of gold.

“The world monetary system is about to change again. It is difficult to foresee the form and structure of the coming order. Clinging to their powers, the monetary authorities of the world will want to repair the old order with restrictions and regulations. But their failure to prevent the numerous crises, which put nearly all countries in serious jeopardy, is casting serious doubt on their credibility and ability. The precarious condition of the very dollar base and chronic foreign account deficits of the United States at the expense of all creditor countries are discrediting the dollar authorities. This explains why governments and central banks throughout the world are becoming ever more reluctant to grant the U.S. government a permanent monopolistic position in matters of world money. In crisis and despair the world may choose gold.

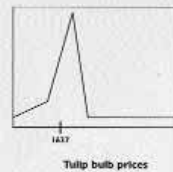
From “A Perilous Dollar Standard”
 Dr. Hans Sennholz
 Grove City College
 10/28/99

www.sennholz.com



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.



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.



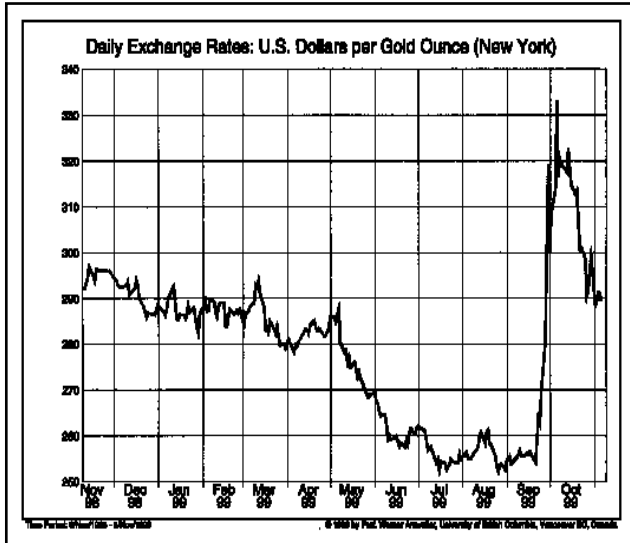
uneasy rider

As the bull market heads into its eighth year, stocks are valued as if recessions and inflation had been abolished, as if budget surpluses and full employment will continue forever. But will they?



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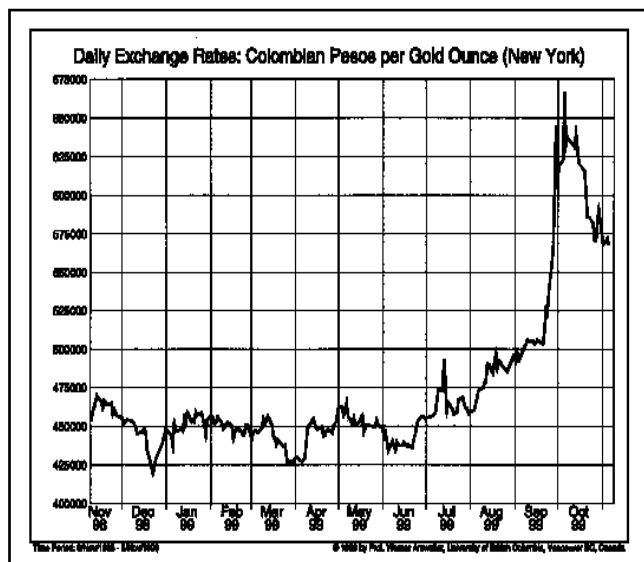
GOLD SHORT & SWEET.....Long-time gold bugs are wondering about the howl that went up on the internet (and elsewhere) when gold retraced its recent rocket climb from the \$250s to the \$330s..... Where it sits today at \$295, it is still up over 15% from its lows, and many analysts are calling the \$285-290 trading range the bottom. That beats the CD rate handily and you still have the comfort of knowing you've protected your assets from paper burnout.....Instead of howling, let's apply a little of that "buy-on-the-dips" strategy that our stockbroker friends keep preaching. I think we've gotten into a market dynamic where that strategy might be productive..... The following from an AP report offers some support and counsel for those concerned about the recent correction: "We're in a correction mode right now (in the gold market) following the huge runup we had," said Joe Foster, portfolio manager of the Van Eck gold funds in New York. "This is not totally unexpected to see us go into a fairly steep correction when you consider how quickly it ran up." But the longer-term outlook is bright. Likewise U.S. Global Investors' Matthew Ford said, "Fundamentally, nothing has changed. I think traders are just sitting on their hands temporarily as traders and the mining companies themselves try to cover their shorts."..... At CPM volumes jumped nicely when gold got back to the low \$290s..... Speaking of physical purchases, reports out of Asia almost daily tell of a recovery in gold demand there led by those who don't want to be left without gold should the Asian Contagion resurface. This recovery has been led by Asian jewelers, who account for 40% of world gold demand, according to a recent *Bloomberg* article. In Asia, gold jewelry is considered an investment in gold much as coin buying is viewed here. Asian gold experts are expecting stronger than usual demand for the upcoming Chinese year of the Dragon. "Since the dragon is a very good year and it has coincided with the millennium year, we expect a huge year," said Bonnie Lau, Director of marketing for Chow Sang Holdings Hong Kong. "Traditional Chinese believe (that) if they buy gold in the new year period they have good luck.".....Robert de Crespigny, the chairman of Australia's largest producer, Normandy Mines,



was recently quoted in the *Financial Times* as saying that the recent fall below \$300 was orchestrated "bank manipulation disguised to protect option exposures.".....The European Central Bank announced gold reserves amounting to 114,589 million euros--up 15,399 million euros from the starting valuation of 99,589 million euros. That's a gain of 15% since euro inception. Not bad for a moribund relic of past monetary systems that shouldn't be on central bank balance sheets (if gold's London-based critics are to be believed).....By the way, has the dollar appreciated 15% against the euro since the Bank of England made its decision to dump gold supposedly to invest the proceeds in the interest-bearing U.S. Treasuries??.....Just askin'.....This month's featured currency chart, like the beleaguered and battered brethren that preceded it in past issues of *NEWS & VIEWS*, contains an economic lesson in one quick glance. Take a look (right) at what gold has done in Columbian pesos. Columbian investors, who had the wisdom and foresight to invest in gold in that inflation-ridden country before the currency tanked, not only survived the debase-

ment; they prevailed. Those that did not.....Well, let's just they didn't and leave it at thatInteresting and timely observation from the London Telegraph's Andrew Hilton: "Alchemists tried to turn base metal into gold. Modern-day rocket scientists seem to have turned it back into paper, or perhaps just an electronic blip on a screen. But by any measure this is a vast amount of derivatives trading to be supported on such a small physical base. Perhaps to get more supply, but more likely just to turn a profit, most of the world's gold producers have been bounced by the financial community into selling their gold production forward, many on a quite heroic scale--not just Ashanti, which is now in trouble, but right across the industry."..... Ashanti news: Last month we spent much time talking about the festering situation at both Ghana-based Ashanti and Canada's Cambior Mines. Cambior, it seems, bought back a goodly portion of its hedge book at a major loss, but not so with Ashanti. According to a UK press report published at *Bridge News*, Ashanti "has ruled out a merger until the group has found stability and resolved its financial difficulties." The fact of the matter is that Ashanti doesn't need a merger now that it's temporarily been let off the hook by its bank counterparties. Ashanti issued its banking counterparties warrants amounting to 15% of the company in return for a three-year exemption from margin calls. The deal has all the earmarkings of the sovereign-

nation bailouts with which we have become uncomfortably familiar over the last several years.....As it stands, someone still holds those call positions. And at some point they might get the itch to pull some profits off the table, especially if gold goes back over \$325.....Robert Mundell, winner of the 1999 Nobel Economics Prize, today described gold sales by national central banks over the past 5 years as "idiotic.".....



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GOLD SHORT & SWEET, CONTINUED.....Three European gold mining companies have sent a letter to the Bank of England asking it to publicly state its activities in the gold and gold derivatives' market. The letter was signed by Peter Hambro, president of Mines D'Or de Salsigne, Chris von Christierson, chairman of Rio Narcea Gold Mines, and John Morris, chief executive of Gold Mines of Sardinia. Peter Hambro is from the British Hambro banking family. "In the name of transparency it is time for the Bank of England publicly to state what it is and has been doing in gold and its derivatives," the letter said. "*If this is 'nothing' then the rumours will be silenced. If it is 'something', we have a right to know what and why...If stories like these concerned the manipulation of share prices, football odds or the outcome of a horse race there would be hell to pay,*" the letter concluded.....The Bank of England is widely believed to be at the center of the intrigues permeating the gold market.....The World Gold Council told Radio Free Europe that countries seeking to join the EU in its eastern expansion could maximize their clout by building up gold reserves.....Gold Fields chairman, Chris Thompson, announced that the South African company bought back all its hedges recently because it believes gold prices are going higher. Thompson cites the crisis at Ashanti as a motivating factor: "[I]t seems inevitable to us that higher, if not much higher, gold prices are possible. Accordingly it seemed prudent to retrieve our hedge positions.".....Gold Fields, you will recall, is the company that purchased 12.5% of the gold offered at the last Bank of England auction.....Poor Newmont Mining. It no sooner joins the hedging game than gold rises \$70--the equivalent of a left hook to the jaw. The U.S. mining company reported in late October that "hedging activity in August would result in a non-cash, pre-tax charge of \$63 million against third quarter earnings under the company's present interpretation of U.S. accounting rules," according to a *Reuters* report this morning. At the time Newmont put on its hedge, the talk in the industry was that their friendly neighborhood gold banker forced them to do it. Some friends.....QUESTION OF THE MONTH: If the World Gold Council is correct that signatory selling rights cannot be transferred to another central bank, what will happen to the price if Swiss voters fail to pass a referendum to sell 1300 tons of their gold? The recent ECB agreement stated only 2000 tons can be sold over the next five years and 1300 of it is supposed to come from Switzerland..... Conspicuously absent from lists of counterparties damaged in the fallout of mining companies and hedge funds ablaze in the gold-carry trade inferno: London's N.M. Rothschild, the centuries-old gold trading firm usually thought of as the center of the gold universe. Conspicuously present on that list: Wall Street's Goldman Sachs and Morgan Stanley along with Union Bank of Switzerland.....Fittingly, we will end this month's **GOLD SHORT & SWEET** with a quote from Haruko Fukuda's October 18, 1999 gracious speech to a meeting of the world's top gold executives in Denver. Ms. Fukuda is CEO of the World Gold Council: "*Gold is back with its customary charisma. I will tell you an amusing aside. The British Chancellor of the Exchequer may have thought he was getting rid of it. But as we speak today gold is being flown back to London in crates: Brinks Mat vans are busy delivering consignment stocks flown back from lying idle in all parts of the world to London, to the Bank of England and to other gold depositories. Bullion banks need them for their liquidity...In private conversation, I have been told on good authority, Michel Camdessus too, who incidentally refers to the World Gold Council as the "Conseil de l'Or" as if this was a Byzantine institution--it sounds grander in French--also acknowledges the role of the Council. But France and Germany who are known to have led the initiative have the tradition and natural understanding of the intrinsic value of gold. They understand that gold is no one's liability, that it is universal and eternal. They hold a large proportion of their external reserves in gold because they believe that gold is the only thing that will ultimately secure a country's monetary independence and sovereignty.*" I would add that gold plays a similar role in individual "independence and sovereignty.".....That's it for now. We'll see you back here next month.

****** BULLETIN ******

LAST MINUTE Y2K GOLD BUYERS

DECEMBER 10, 1999 DEADLINE

We are rushing the December issue of *News & Views* to you in order to provide the maximum amount of time to complete last minute Y2K preparations. To accommodate your year-end needs, we have just completed special arrangements with our clearing houses for both pre-1933 European gold coins and bullion gold and silver coins to deliver your orders as quickly as possible.

Our goal is get your metal to you before the December 31, 1999 rollover but in order to do that you must contact us before 12/10/99. Orders will be taken under certain strict terms and conditions which will be outlined when you call. Orders are restricted to certain approved items only.

The longer you wait, the greater the chances your delivery date will stretch into January. Don't forget on top of everything else we will be dealing with the Christmas postal rush. Though many of you are already prepared, we realize that you may want to make last minute adjustments and additions. Those of you who haven't yet made your gold purchase, this is your final opportunity before the clocks clicks over to Year 2000.

Please call 1-800-869-5115 if you have questions.

REVIEW OF RECOMMENDATIONS

BACKGROUND:

Last month we said that the best way to deal with the current gold market is to accumulate physical metal for the medium to long term. With gold breaking out, would we change our strategy? Not in the least. As we said last month, those keeping gold from going higher will lose their battle with the free market and gold will rise. The first leg of that prediction has now been completed with the rise to the \$325 area (and a high of \$339) in the first leg of the breakout. But we have a long road yet to travel. 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 breakout lasted over a decade. Gold did what it wanted to do all along, but was prevented initially from doing so 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 were allowed to float these past few years, but gold wasn't. With the announcement by the European Central Banks (please see page five for details), 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 the situation will 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 this 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 will 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. Last month we cautioned patience. This month we advise the same. Add comfortably by buying physical gold but don't overcommit. 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, but the foregoing reveals our fundamental view and why we so determinedly believe that physical ownership is the best approach for most investors. We just don't know when the monetary system will suffer breakdown, so timing any gold investments remains problematic. Physical metal stored nearby 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

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 who will be 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 understood and owned gold in the early 1970s. That fact of economic life will weigh heavily in the gold market logistics in 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 is a case in point. I am sure many of you encountered busy phone lines and difficulty in placing your orders. That is why we recommend a steady course--steady gold diversification, acquisition and storage for that rainy financial day. **That is why we recommend acting now.** 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.

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 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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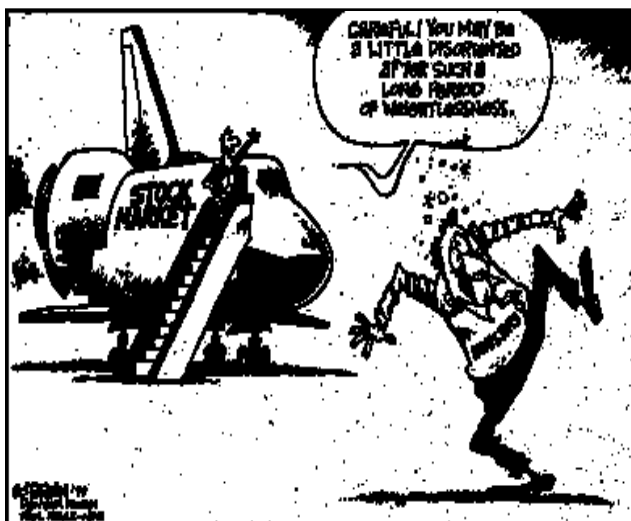
A Clean, Well-Lighted Place for Gold Investors

SHORT & SWEET.....We'll start this month's **SHORT & SWEET** with a little Y2K news: The CIA's intelligence officer for science and technology, Larry K. Gershwin, recently told Congress that Russia, Ukraine, China and Indonesia are likely to suffer "significant" Y2K failures, that Germany and Japan are also "at risk," and that large companies may experience "disruptions and delays" due to system failures with key business partners. The most affected businesses? Financial firms like banks and stock brokerages, as a flight to quality from traditional assets leads investors worldwide to gold and the dollar, according to the CIA analysis.....We have seen press stories that the run to cash has already begun in the United States.....We've kept a wary eye on Europe the past year as its new currency, the euro, went through birth pangs that had it skyrocket early in the year only to re-trace and then take off again as the year concluded. Why? Because Europe is a formidable nation in the making. And its new currency was created to compete with the dollar--a development we see as good for the dollar, the euro and the international monetary system..... "Soon," says the *International Herald Tribune*, "(the European Union) will set itself the long-term aim of absorbing the troubled Balkan states of former Yugoslavia and extending its



sphere of influence, though not full EU membership, as far as Russia and North Africa. It will be much bigger than the Roman Empire, its only remotely comparable predecessor."Alan Greenspan has become probably one of the most admired, feared and respected Federal Reserve chairmen in that institution's 86 year history..... Commentator Michael Belkin though has a more acerbic view of the world's most powerful central banker: "That Greenspan should suggest banks be more risk averse is a farce. The leveraged pyramid that supports the speculative bubble is based on Greenspan's monetary machinations. The Fed sent out a clear smoke signal last year with its LTCM bailout interest rate cuts--*go out and buy stocks with abandon, shop until you drop, splurge on mergers, build that new skyscraper and take any half-baked, pie-in-the-sky Internet business plan public in an envi-*

ronment of Fed-inspired casino capitalism. Let's face it--this bubble has Greenspan's name all over it and DNA inside it. For him to suggest otherwise is to deny paternity, in which case the speculative bubble is entitled to child support."John Crudele remains one of my favorite financial writers simply because he's not afraid to throw a little cold water on the Wall Street establishment from time to time. Recently he wrote about the on-the-job hazards of analysts at big financial firms who predict a bear market. Crudele says these analysts are being silenced by the firms that employ them. Says one brokerage firm strategist: "*If you're bullish and wrong, it's OK. But if you are bearish and wrong, it's unacceptable. It's suicide to be rational in an irrational environment.*" Why? "That would be bad for business at investment houses that want to suck up to companies so they'll get highly-profitable investment banking business. So a much nicer-sounding 'neutral' rating had replaced the dreaded sell." So much for objective investment advice. When that famous stock brokerage talks, is anybody listening? At least now, we know "neutral" means "sell." Here's an interesting Y2K twist: It seems that there's more to the scare than the simple date changeover. Now, U.S. intelligence officials are warning that the very programmers hired to write new code for the big mainframe computers may have infected them with "hostile programming code" which could in itself cripple the nation's computer systems. "We've discovered . . . bugs and back doors being put in software from remediation efforts from foreign nationals," said one investigator. "We discovered that some of the [changes] allowed access for 10, 12, 13 years. . . We think it's a serious issue." The Cyberwars are here!.....You may have heard about the turmoil that accompanied Tony Blair's (the British prime minister) sponsored paring down of the British House of Lords to 92 members. Lord Burford, the most vocal critic of the purge who was dragged from the House of Lords chambers, said: "I acted to *warn the nation* that it is being deceived by the government. Behind this bill for Lords' reform lurks a hidden agenda which is treasonous. Tony Blair has been ordered by his world-government masters to bring the British constitution into line with the other EU countries in preparation for full political union. If Blair gets his way in Britain then, in the words of Shakespeare, our country 'will be a wilderness again peopled with wolves.'" As reported in one British daily: "Hundreds of peers gasped in disbelief when the Earl of Burford, a direct descendant of one of Charles II's 'bastard sons', crawled under a bar in front of the throne to stage his protest brandishing a copy of the government's bill which will remove all but 92 hereditary peers from the Lords. To cries of 'get him out', Lord Burford shouted from the woolsack: '*This bill, drafted in Brussels, is treason. What we are witnessing is the abolition of Britain.*'Amidst all the turmoil, one British lord was said to have muttered 'So this is how the world ends, not with a bang, but a giggle.'".....Though we admire the clever twist of a phrase, we tend to come down on the side of Lord Burford and the British Tory Party who are engaged in trying to save British autonomy.....While we are on the



SHORT AND SWEET, CONTINUED.....subject of Britain, a British think tank recently published a study in which they said in the next millennium “children could start school at three, launch their own businesses at 20 and live until the age of 120.” The study also concluded that “with advances in medical science bringing much greater longevity, people may have time for up to three careers interspersed with extended terms of education. It also predicted that one-third of women will decide not to have children and more couples will not marry.”.....Bruce Rockwell of the von Mises Society on the proposal from a Fed Governor that cash be manufactured with expiration dates: “The plan,” says Rockwell, “concocted by an official of the Federal Reserve, as reported in *Wired*, has a similar rationale with a high-tech twist. Marvin Goodfriend, a senior vice president at the Richmond branch of the Fed, suggested that all bills contain a magnetic strip. The strip would carry information



about the last time the bill entered the banking system. When the bill was finally deposited, if the expiration date had passed, a ‘carry tax’ would be imposed on the depositor.”.....“The biggest mistake,” Rockwell concludes, “a free society can make is allowing the government to control the money. Herein lies the merit of a pure gold standard. When the government can’t destroy the money, it has a tough time destroying liberty. But today, money is entirely political, an instrument of state power and subject to endless manipulation by banking elites. They tell us what it’s worth, and when and for how long we can hold it. That’s just plain stealing, isn’t it?”Yes, Bruce, it *is* stealing. But just because something is proposed, doesn’t mean it’s going to happen. This proposal is idiotic though, on second thought, is there anything not idiotic enough for our government to involve itself in? “Better

economic prospects for Europe and Asia and shifting investment flows contributed to the dollar's steep declines against the yen and euro in the third quarter.” reports the Federal Reserve Bank of New York. We continue to see reports of money being repatriated to Europe and Japan--an important element in the equity markets for the year 2000.....We’ll close with a few Christmas thoughts to contemplate as we go into the 2000 election year.....Firstly, Gibbon on the fall of the Roman Empire (*A Ghost of Christmas’ Past*): “The decline of Rome was the natural and inevitable effect of immoderate greatness. Prosperity ripened the principle of decay; the causes of destruction multiplied with the extent of conquest; and as soon as time or accident removed the artificial supports, the stupendous fabric yielded to the pressure of its own weight.”.....Secondly, Matt Drudge on the occasion of the 200 millionth hit at his popular *Drudge Report* web site (*A Ghost of Christmas’ Present*): “The ability to report on the world via modem without government intrusions has kept this nobody busy for the past six years. I may have been rhymed and slimed and told to get out of town while I still had my life, for doing what I do, but I stand convinced, more than ever, that the future has been made for individuals. Gone are the days that we had to wait for Dan Rather to put on his make-up to read us the evening news! Gone is the time when a few newspaper and magazine editors controlled the flow and owned the headlines! I have never answered to anyone, but to you the reader. I understand deeply that the gates have blown open. And to that, I say: Let the future begin!”.....And lastly, this from William Chancellor’s *The Devil Takes the Hindmost -- A History of Speculation: (A Ghost of Christmas’ Future)*: “A point has always been reached where both speculation and credit arrive at the limits of their expansion. At that moment the business cycle reappears with a vengeance...and the ‘new era’ is consigned to history.”.....It’s going to be an interesting year and we look forward to spending it with you. With that we will bring this Christmas issue of *News & Views* in for a landing.....Merry Christmas....Happy New Year.....and Happy Trails until we meet again. MK

**Please Remember
the Golden Rule:**

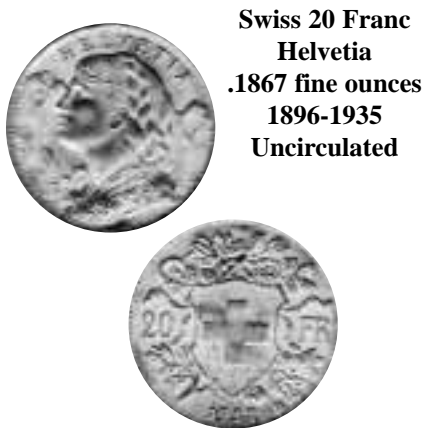


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Historical

Owing to its central location among the great powers of Europe, Switzerland for centuries has been the center for commerce and banking. It is famous for its role in the gold market where the 'gnomes of Zurich' are said to hold much influence in gold's financial uses.

Switzerland is synonymous with banking and synonymous with the gold trade. It made its first splash in the world gold market by convincing South Africa that they would be better merchants for its gold than London. Then Russia quickly jumped aboard the Swiss gold train. Zurich is said to be the largest dealer of physical gold bullion in world, shipping to all corners of the globe. Noted gold authority, Timothy Green says, "Gold is as much a part of Switzerland as the Alps and skiing."

Many individuals in Europe and elsewhere who do not trust their own governments trust the Swiss to handle their money. As a result, much of the world's privately held gold is stored secretly in Swiss vaults. Now you can own a part of the Swiss gold legacy *and* Republican history with these intriguing gold coins. The "Confederatio" on the older of the two coins refers to the assemblage of the twenty five Cantons shown on the map above into the modern Swiss State.