

# NEWS & VIEWS

June, 1999

## Forecasts, Commentary & Analysis on the Economy and Precious Metals

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

"All pro-paper economists from Keynesians to Friedmanites, were now confident that gold would disappear from the international monetary system; cut-off from its "support" by the dollar, these economists all confidently predicted, the free-market gold price would soon fall below \$35, and even down to the estimated "industrial" non-monetary gold of \$10 an ounce.

Instead, the free price of gold, never below \$35, has been steadily above \$35, and has now climbed to around \$125 per ounce, a figure that no pro-paper economist would have thought possible as recently as a year ago." Murray Rothbard, ca 1973

### AT RANDOM.....

THIS IS THE TIME OF YEAR when thoughts turn to summertime pleasures--tying the perfect fly, grooving the swing, getting the boat on the water, barbecues and picnics, family and friends. Most years we encourage our friends and readers to kick back, let the markets and world events take a back seat, and let the summer flow. This year we are counselling caution. There is much in the wind and here's where we get back to our Five Horsemen--Y2K, euro introduction, the Asian Contagion, the over-valued stock market, and rising oil. This is a year to put one foot in the affairs of summer, another in the affairs of financial markets, and attend to both. Judging from the discussions I have had with Centennial clientele, most are already thinking along these lines. For those counting on an easy, carefree summer this year, events might shake the reverie.

SPEAKING OF THE EURO, the graph (top right) shows what gold has done in euros. As you can see, gold is in a bull market in Europe. Why? The euro has cratered (though some now say it has hit bottom). The euro/gold graph shows once again the direct relationship between currency *depreciation* and gold *appreciation*--the quintessential motivator for gold ownership. With the euro considered by most countries to be the first viable competitor to the dollar since it unseated the pound as the world's reserve currency, the question some of our more advanced clientele are asking is: "If the dollar begins to depreciate against the euro, will the dollar automatically depreciate against gold?" We think the answer could very well be "Yes!" If the relationship proves to be reality, then gold watchers would be able to anticipate dollar/gold movement by interpreting the effects of monetary and political policies in Europe.

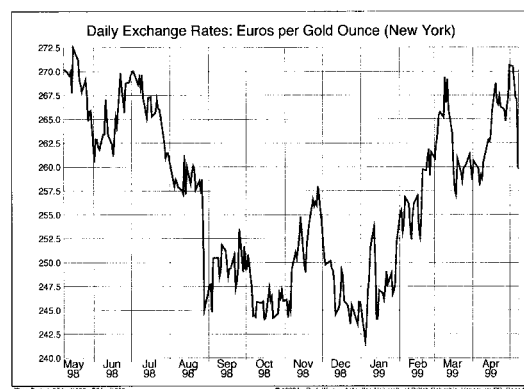
GOLD LIFTED ITS HEAD ABOVE THE FOXHOLE at May's end to survey the aftermath of one of the most severe short selling attacks the metal has ever endured. (Please see graph bottom right.) For the moment, the battlefield is quiet though most in the industry really don't know what to expect next. Some analysts say the short-covering will have to begin soon; others say that the shorts will just roll over their positions and continue the attack.

One thing is certain: We are quickly approaching a price level where only a handful of even the world's largest gold mines can remain in operation. That fact must weigh heavily on the gold- carry trade which relies on that production to repay much of the 8000 tons of gold that has been loaned out in recent years. As James Turk (*Freemarket Gold & Money Report*) pointed out recently, "In contrast to national currencies, all of which can be created by bookkeeping entries, gold cannot be created out of thin air by any accounting technique."

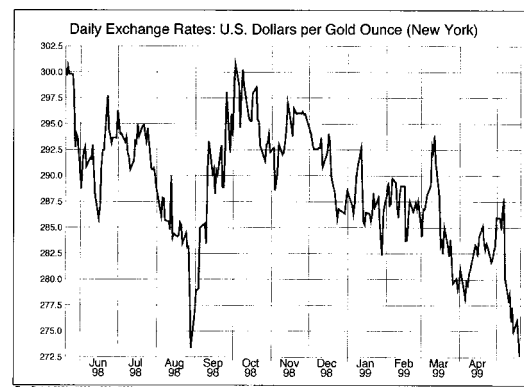
AFTER THE BRITISH GOVERNMENT put extraordinary pressure on Europe's central banks to sell, followed by even more heavy-handed tactics to get the International

Monetary Fund to sell its gold, Chancellor of the Exchequer Gordon Brown returned to London from the recent IMF meeting in Washington empty-handed--the IMF would not be selling its gold. It wasn't two weeks later that the announcement was made that the Bank of England would be selling gold.

All of this smacks of problems in foggy Londontown that go beyond the run-of-the-mill bank



failure that would require printing a truckload of sterling and rushing it to the scene of the bailout. Perhaps there might be more wisdom to Turk's words than revealed in his matter-of-fact statement: You can't print gold. Contractually, gold loans must be repaid in gold. If those needing gold (usually guaranteeing counterparties) were to go into the market for a large quantity, it would surely send the price into rocket trajectory thereby undermining still more carry-trade positions. If some other central bank cannot be persuaded to sell at these bargain basement prices, the host central bank would then be forced to sell its holdings to defend its banking



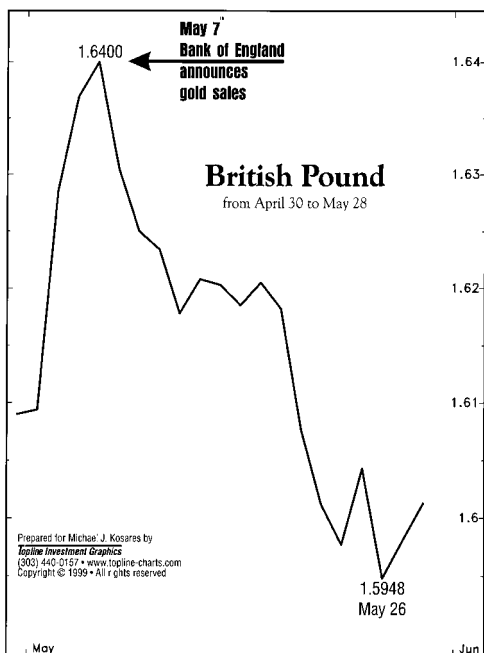
system-- a new danger of which all gold lending central banks should take note. This, in my view, is precisely what may have happened to Bank of England. They very well may have been forced to dip into their reserves to prop up a domestic financial institution with a gold bailout.

Now you know why Gordon Brown put on the full court press to find gold. Until proven to the contrary, I continue to believe that the circumstantial evidence points to a gold bailout in Britain and that this gold being

(CONTINUED ON PAGE TWO)

auctioned by the Bank of England will never see the light of day. If that were not the case, the auction would have been made public and not restricted to London Bullion Market Association members and certain approved central banks. If I am correct and wind of it gets to the markets, an immense short-covering rally could be touched off--the likes of which have never been seen in the gold market before. Many of the top gold analysts are beginning to report that the auction will be oversubscribed, some say by a factor of at least two possibly three times--another bullish indicator.

SPEAKING OF BRITAIN AND THE POUND STERLING, we have said many times that a nation does not sell gold because it *wants to*; it sells gold because *it has to*. We have also pointed out on occasion the correlation between selling gold and currency depreciation. Take a look at this graph (below) of the British Pound since the Bank of England announced the gold auction.



THOSE OF YOU WHO FREQUENT the USA GOLD FORUM on the internet might be interested in the haunting artwork that accompanied the Fifth Horseman article I wrote for *Money World* magazine. (See chart at right.) *MoneyWorld* does an extraordinary job with my arti-

cles and Michelle Berberet, who runs the show there, is the finest content editor I have ever worked with. The New Fifth Horseman of the Apocalypse, for those of you who haven't followed the Horseman series, is Rising Oil.

THE YELLOW METAL CONTINUES TO ENJOY strong international demand and words of support from key financial figures in Europe and the United States. The World Gold Council yesterday reported a 67% increase in demand for the metal year-on-year for the first quarter of 1999 led by a recovery in Asia and strong growth in the United States where concerns about Y2K, the over-valued stock market and inflation have become considerations for many investors. In recent Congressional hearings, the metal got an additional boost from an unexpected quarter when both Fed Chairman Alan Greenspan and Treasury Secretary Robert Rubin suggested that it was unlikely that the United States would sell any of its prodigious gold reserve.

LASTLY, I COULD NOT CONCLUDE this month's newsletter without at least a brief mention of the charges being filed against Merrill Lynch for collusion in manipulating the copper price. For years we have complained about the one-sided view of the gold market conveyed in the financial press by Merrill Lynch and warned that its

analysis was less than objective and even-handed. As a matter of fact, Merrill Lynch has never seen a gold price it liked and we have always thought there were reasons for this having to do with its own position, or the position of key clients, in the gold market.

With the revelations about the copper market, some concrete evidence is now in the public record that this sort of thing goes on -- not that we ever had a doubt. Though we stress that the charges filed by the U.S. Commodity Futures Trading Commission must be treated as allegations for the time being, it serves to buttress warnings we have issued here repeatedly to read financial press reports with an educated eye and an understanding that the Wall Street financial firm being interviewed may have an ax to grind--in some cases a very large ax to grind. Sumitomo Corporation, which was allied with Merrill Lynch in these copper market operations, has already paid an \$8 million fine to British regulatory agencies for manipulating this market.

"World War Three will start in July in the Balkans, last seven months and end in victory for the U.S.-led North Atlantic Treaty Organization, according a new analysis of the 16th century French seer Nostradamus. He is clear it will all start before the end of the century during the period of Cancer which is between June 22 and July 23, and in a triangle bordered by Greece, Italy and Turkey, which is the Balkans." University of Stellenbosch (South Africa) Professor of Political Science Willie Breytenbach told *Reuters*: "I have to emphasize I am a skeptic. I am an academician who was bored on a Sunday. But what I found was so chilling that I put pen to paper."

In (one) verse there is a reference to three years and seven months of peace before the war. "I suddenly noticed that the Dayton Peace accord was signed on November 21, 1995. Adding three years and seven months, that brings us to the end of June, 1999," Breytenbach said.

"He, Nostradamus, is quite clear the war will last seven months and the ultimate victor will have been born on American soil," Breytenbach said.

-----Reuters

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THE RESURGENCE OF INFLATION LAST MONTH caught many investors by surprise--resurrecting a long-held investor concern. Many have noted that inflation no sooner appears galloping over the hill than it is at near double digits--in the 7-8% range. If the Fed decides not to raise interest rates, I would say that public concern over inflation has run ahead of the Fed at this juncture. Furthermore, the public will continue to steadily accumulate physical gold which could pressure the stock and bond markets. If the Fed does not act, events will force it to react later, as we see little chance that the inflationary bias in the economy will be cooled by a Federal Reserve sitting on its hands.

As it is, the Fed is purchasing about 30% of the Treasury debt issue and then pumping that hot money into the economy--even as the monthly federal deficits resume an accelerated upward curve. Fed buying of government debt is an indicator that foreigners are not interested in assuming more Treasury obligations. Year over year, the government is once again over the \$100 billion mark in additions to the federal debt even as departing Treasury Secretary Robert Rubin talks resolutely about spending non-existent budget surpluses to a bedazzled nation. The bond market is also throwing off clear and undeniable signals about the quality of U.S. debt. If the Fed doesn't act, our view is that the market will continue to act in its behalf by lowering bond values and raising the interest rate for U.S. creditors.

The United States cannot continue to offer liquidity to the world without paying a price in the value of its currency and the attendant effects on the bond market. As long as this situation exists, and I do not see any significant repair in the near future, gold will continue to be accumulated by smart money around the globe, in lieu of any viable currency alternative. Though the euro offers hope, it does not offer sanctuary at the moment. The yen is a basket case and the Swiss have offered their currency up at the altar of the new euro. Gold stands alone as a viable portfolio alternative to the dollar and that will be the principle factor driving the physical market for the yellow metal at least for the rest of this spring and probably through the summer.

GOLD IS ACTUALLY DOING FAIRLY WELL when you consider the dollar is soaring, the DJIA just traversed 1000 point in the shortest period in history, and U.S. markets are being viewed worldwide as a safe haven in an unsafe world. All this rides though on a tidal wave of debt and easy money--an "economic Titanic" as *The Reaper's* R.E. McMaster calls it. Money growth (M3) is up 11% over the past six months and most of that has gone into what McMaster calls "an exhilarating narcotic"--the stock market. Requiring something as potent as the shock of British sales to get gold lower remains something of a victory for the yellow metal and a warning to the financial community that, underneath it all, there lies a fragile and wobbly foundation of investor confidence.

The confidence in stocks, already shaky, could graduate to a selling panic at any sign of this foundation cracking. The falling bond market may have already issued a warning. Says McMaster: "We're seeing a blowoff, a mania in stocks, ironic, too, isn't it, with the hit movies of late having such titles as *Deep Impact*, *Volcano*, *Armageddon*, *Titanic* and now *Noah's Ark*. The DJIA represents the best of all upcoming good times, as if the market was a discounting mechanism, while current events and movies predicting the future are projecting the worst upcoming times. How long until a resolution of this tension?"

MITSUI BANK'S ANDY SMITH OFFERS THE FOLLOWING INSIGHT into the gold lending business as it ties to options trading: "The exit of several famous but now disillusioned interbank players from the stadium and the relegation of others to the cheaper seats (ostensibly for a more focussed view) raise the question: can this 'beautiful game' for producers continue (tight spreads, intense competition on hedging service from banks)? Watch for yellow cards on credit lines to miners? Teamed with new derivative accounting rules coming into play this summer (from the Financial Accounting Standards Board -- FASB, making the pass through from options to P&L swings more obvious) the transfer to 'plain vanilla' hedge structures could be accelerated."

(CONTINUED ON PAGE FOUR)

<b>Current Prices</b>		Since last issue.....
06/01/99		
<b>Gold</b>	\$268.20	- 19.40
<b>Silver</b>	\$4.99	- 0.37
<b>Platinum</b>	\$362.10	+13.90


**Comment:** Gold prices are now hovering at 20-year lows despite record physical demand. Silver is selling off in sympathy. Platinum is rising on continued supply problems from Russia.

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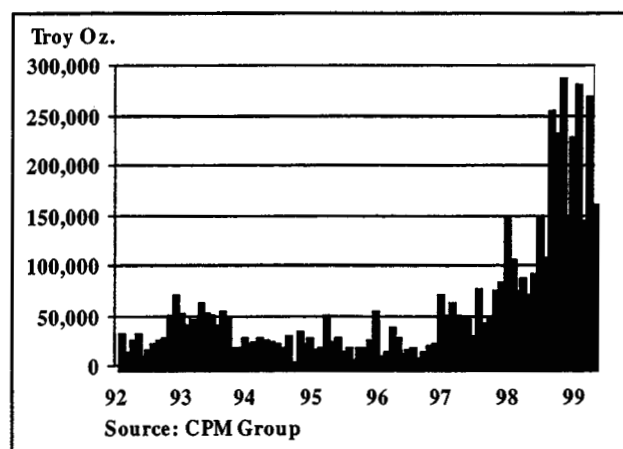
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**AT RANDOM.....WHAT OTHERS ARE SAYING**

THE U.S. MINT ANNOUNCED APRIL 19 that sales of the uncirculated gold American Eagle bullion coins surpassed 10 million ounces in sales since the program was launched on Oct. 20, 1986.

Investors worldwide are attracted to the inherent value of the American Eagle because of the U.S. government guarantee of weight and volume," said Mint Director Philip N. Diehl. "We have worked closely with our distributors and blank suppliers to make the Eagle the world market leader. Four years ago, the Gold Eagle owned 18 percent of the world bullion market. Today, it has a market share of 60 percent while silver and platinum Eagles hold shares approaching 80 percent of their markets.

Customers have ordered 819,000 ounces of gold Eagles in calendar year 1999 to date, with sales of 281,000 ounces in January; 144,000 ounces in February; 269,000 ounces in March; and 125,000 ounces as of



April 19. Scotia Mocatta's April 19 order for 7,000 ounces of gold American Eagles pushed total sales over the 10 million-ounce mark.

Sales of the tenth-ounce gold Eagle have been particularly strong, with 127,500 ounces of that denomination sold to date compared to 15,000 ounces sold through April 1998.

After years as one of the top three gold bullion coins in world markets, the Eagle ascended to the number one position in mid-1997. Before 1997, sales of the gold American Eagle averaged between 300,000 to 350,000 ounces per year, but as gold prices approached 18-year lows, demand rose dramatically.

Authorized by the Gold Bullion Act of 1985, the American Eagle Program is designed to provide investors with a U.S. - made and -backed alternative to foreign produced gold bullion investment coins. Gold Eagles are not sold directly to the general public, but are sold in bulk quantities to pre-qualified wholesalers called Authorized Purchasers. Gold Eagles are intended for investors seeking to add gold to their portfolios. The coins are sold at the spot price of the precious metal plus a small premium.

The gold used in the production of the American Eagle, by law, comes from domestically mined sources in the United States, which is the second largest gold producer in the world.

----- *Coin World*

CALL IT A COUPLING OF Y2K AND 24K - as in karat. Many Americans who fear financial turmoil from millennial computer glitches are on a gold-buying spree. Along with investors concerned about instability in the global markets, they are bringing sales of gold coins to record

levels. U.S. demand for newly minted coins like the American Eagle or Canadian Maple Leaf was up 109 percent at the end of 1998 from a year earlier. The U.S. Mint alone sold 2.3 million gold coins in the first four months of 1999, more than four times as many as it did during the same period last year. In fact, demand was so high for the one-tenth-ounce coin earlier this year that the supplier providing the mint with blanks couldn't produce them fast enough.

Some gold buyers are doomsayers, seeking a commodity for bartering in case calamity strikes on January 1. But most consumers simply want to diversify their portfolios to hedge against a market downturn."

----- *U.S. News & World Report*

IT IS STRIKING THAT ALL OF THE LARGE GOLD HOLDERS within the ECB - the Banque de France, Bank of Italy, and Bundesbank - all did come out with statements which, after taking due note of the Bank of England announcement, argued that they had no intention of following suit. This has been followed up by the Bank of Portugal today. We also find it interesting to note that, with the appointment of Ernst Welteke as Hans Tietmeyer's successor at the Bundesbank, the German Finance Ministry yesterday went out of its way to state that there would be no change in the Bundesbank's position on gold despite the impending changes in personnel. This would tend to undermine the arguments of perma-bears, such as Andy Smith, who have argued that the formation of a new SPD government, coupled with Tietmeyer's imminent retirement, would in fact herald a change of policy with respect to future German gold sales.

The characteristically cautious World Gold Council has publicly stated that the BOE decision was, above all else, political. According to Chief Executive Officer, Haruko Fukuda:

"Gold is at once a commodity and a universal currency. Is the British Chancellor of the Exchequer challenging that long-held assumption by bringing the gold ratio down to a mere 7% of the UK's total official reserves? Or was there another hidden political agenda? We at the World Gold Council have been told by HM Treasury that it was emphatically a political decision." (Bloomberg, May 10, 1999)

"Political", in what regard? Initially, much of the British press focused its attention on the European Monetary Union, arguing that the gold sale was a move designed to prepare (by stealth) for UK entry into ECB by reconfiguring its gold reserves in line with those of its continental European counterparts. Although denying that the sale had anything to do with EMU, the Treasury has sought to perpetuate the myth that the country has a disproportionate amount of gold, out of line with comparable nations. Ms. Fukuda, however, attacks this as an accounting subterfuge:

"This sleight of hand does not fool the market. One respected gold analyst, Andy Smith of Mitsui, says: 'The Bank does not quite play cricket. For it is only by netting overseas liabilities [\$22bn] from gross reserves [\$37bn] that gold reserves [\$6.5bn] appear disproportionate-at 43 per cent of net official reserves . . . Against the usual yardstick, gross reserves, the UK has always kept a more understated balance than its large European neighbors.'"

No central bank ever measures their gold reserves on a net basis - these assets having always been accounted on gross basis. The deliberate deception again leads

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one to the conclusion that a hidden agenda is behind the sale."

What is the nature of that agenda? Fukuda hints at this by arguing that "despite persistent efforts by the United States to drive gold out of the international monetary system entirely, gold is today an important part of the world's central banks' official reserves." This is an unusually blunt remark coming from an organization noted in the past for its conservative public statements on the gold market. In linking the Americans to this BOE decision, Ms. Fukuda fleshes out our assessments, implicitly suggesting an ideological battle between an Anglo-American camp on the one hand, and the continental Europeans on the other. This may be somewhat of an oversimplification (after all, the Bank of Italy in some respects subscribes to New Age central banking, as evidenced by its participation in Long Term Capital). However, it does illustrate two competing visions with respect to central banking, of which the treatment of gold as a reserve asset is one important aspect.

----- *Veneroso Associates*

~~BRITAIN'S DECISION TO SELL MORE THAN HALF ITS GOLD reserves~~ is ill-judged given the country's chequered economic record, Bank of England former head of treasury Terry Smeeton said on Thursday.

"It's not a policy I would have advocated when I was at the bank. I am sad this action has been taken," he told *Reuters*. "It's clearly a treasury decision in which the bank has had to acquiesce," said Smeeton, who retired from the Bank of England last year and is now a non-executive director at Standard Bank London.

"While things are undoubtedly pretty benign at the moment it's hardly wise to think it will be plain sailing for ever after," Smeeton said in reference to Britain's economy. "One only needs to consider our rather poor



track record in economic management in the last 25 years," he added.

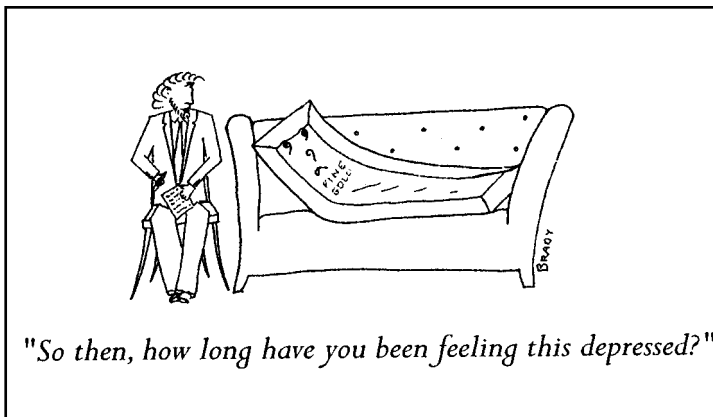
-----*Reuters*

~~I HAVE HEARD SOME ARGUE THAT GOLD HAS CHANGED~~, that it no longer is a monetary asset. Before you fall into this trap, consider the following. We must ask ourselves why gold is yielding only 1% interest, while the interest on dollars is 4%?

First, if gold were no longer a monetary asset, why does it have an interest rate? If gold were only useful for jewelry and ornamentation, it would clearly not have any interest rate. That it does is a sure sign that gold remains a monetary asset. But there is a question that is even more important.

Why is there a differential between gold's interest rate and the dollar's interest rate? The answer is risk. There is greater risk to the dollar, and the higher interest rate is required by the market to offset this risk. If there were no difference in risk, you could borrow gold or the dollar at the same interest rate.

What is this risk? You name it – Bill Clinton, your local bank, inflation, the politicians in Washington, etc. All of these forces can adversely affect the substance of the dollar, thereby undermining the value of the Dollar. Gold cannot be debased by these forces, so the market does not require the same risk premium on gold that it requires on the dollar, and the other national currencies



for that matter, all of which have interest rates even higher than gold's.

Therefore, gold has not changed. Only the perceptions about gold have changed, and perceptions are not permanent.

-----James Turk, *Freemarket Gold & Money*

~~WITH THE INTERNATIONAL MONETARY FUND ABOUT TO YIELD to almost constant British pressure and authorize the sale of some of its gold reserves~~, several points should be made:

First, the constant talk of gold sales by central banks and the IMF hurts the metal's price more than do the sales themselves. Once the minor effects are seen of the IMF's selling 150-300 tons on a onetime basis and the Swiss selling 100 tons per year, gold should finally move up. These potential sales are important psychologically. However, in relation to the total amount of gold produced and fabricated each year, they're quite small.

Second, it's obvious that many gold-selling central banks and, of course, short-sellers, want to talk down gold's price. The argument that central banks have no interest in seeing a lower price because they own bullion is irrelevant. Their economic interest in gold bullion is insignificant compared with their desire to keep the power to create credit and money without restraint and out of thin air, which they have held since the abandonment of the gold standard.

Third, the central banks that have sold gold are eager to have other central banks capitulate and join them. Their uncertainty as to the correctness of their action causes them to urge other nations to also abandon gold so that there can be no going back to an international currency system even partially based on gold, as the Bretton Woods agreement was. They fear a future in which nations with little or no gold reserves suffer through periods of currency uncertainty and devaluation, while those with substantial gold reserves do not.

---- Letter to the Editor, *Barrons*/by George Shinopoulos

## Gold Short & Sweet.....

After a typically slow April tax season, business picked up at CPM/USAGOLD in early May with client interest most evident in the pre-1933 European gold coins. Our clearinghouse told us that this interest was evident across the nation as well.....The Bank of England announcement to sell over half its gold reserve--415 tons in 125-ton increments over the next several months--set off a price drop in gold that took it to 20-year lows. The drop was accompanied by heavy buying in the Middle East, Asia and the United States..... According to a recent *Reuters* report, "Bank of France head Jean-Claude Trichet said in Paris the United States, German, French and Italian central banks remained opposed to selling gold reserves."..... *Financial World News* reports Chinese gold demand way up in the first quarter of 1999. The Chinese gold sector reports a 48% jump in profits--and a 16% rise in the gold weight transacted, buttressing claims by gold analysts that traditionally strong Asian demand is back on stream and growing. Demand in Asia for physical metal had been subdued somewhat by the Asian currency crisis that dominated those economies over the past 18 months. It now appears to be recovering..... Our Canadian friends will not be pleased to know that the Canadian government sold more gold in April (with minimal impact on the market) and is now down to 2.2 million ounces--just a dismal 70 tons. If history is a teacher, Canadian citizens would be well-served to put themselves on the gold standard by adding gold to their asset structure. When a country depletes its gold reserves, the currency goes in the tank and the currency holders ultimately become the victims of the government's misguided policies.....Barrick Gold Corp. chairman, Peter Munk, blasted central banks and hedge funds for undermining the value of gold. According to a *Reuters* report yesterday, Munk charged that "hedge funds 'out to make a buck' had exaggerated rumors and a general lack of information in the gold industry to profit from the downward spiral in bullion prices." Munk joins Gold Fields chairman, Chris Thompson, in publicly charging a concerted effort in holding down the gold price. Thompson earlier this month blamed Wall Street bullion traders for spreading false rumors about Gold Field's hedge book..... Joining the growing Congressional chorus opposed to official gold sales, four U.S. senators (including prominent Democrat Tom Daschle) wrote Treasury Secretary Robert Rubin voicing their disapproval of the British proposal, which was backed by the Clinton Administration, to sell some of the International Monetary Fund's gold. They proposed instead that the IMF offer the gold as security for loans.....Gold prices, which continue to hover near 20-year lows, appear to have been disconnected from supply/demand fundamentals amid pessimistic sentiment and massive short positions, according to a Salomon Smith Barney report. The firm says it is "anticipating a record 1,000 tonne supply/demand deficit in 1999, more than double last year's 481 tonne deficit, as mine and gold scrap supply decline".....The World Gold Council has run an advertisement in the UK's *Financial Times* newspaper, saying that a "national opinion survey" found the UK public disapproves of the UK Treasury's plan to sell over half of its gold reserves. The advertisement said that the survey found that disapproval was 5 to 2 against the sale plan..... Former Chancellor of the Exchequer, Nigel Lawson: "I think it is clear that this gold sale is being done in preparation for joining the euro. The Belgians and the Dutch did exactly the same thing when

they were preparing to join EMU. The reason is that you don't really need gold reserves if individual central banks cease to exist in all but name when you join EMU. If you haven't got your own currency, you obviously don't need your own reserves." CPM COMMENT: With all due respect, Mr. Lawson, the Belgians and the Dutch announced their sales *after the fact* in order to garner the best possible price. If what you say is true, the British gaffe of revealing its intentions *before the fact* will go down as one of financial history's greatest blunders....In a letter to *Financial Times*, Haruko Fukuda of the World Gold Council points out that gold forms an important part of the reserves of various nations: Germany --33.2%; France--43.5%; Italy --50.4%; the U.S.--51.3%. "By reducing its holdings of gold from 17% to 7%," she says, "the UK will be on a level with Albania.".....With all the talk about central bank gold sales, we thought it would be interesting to go back and see just how much official sector gold has reached the market in the last decade. Our findings might surprise. In total, just over 2000 tons of gold were sold over a 10-year period--averaging about 200 tons per year. Nearly half of that was sold by one country--Belgium (996 tons). *Netherlands* accounted for another 700 tons and the rest by a potpourri of countries suffering currency problems --but primarily *Argentina* (125 tons )and *Australia* (167 tons). When you consider that nearly 4000 tons of gold are used annually, these sales are a minor consideration hyped relentlessly by a hostile financial press.....A Buddhist monk in Bangkok, Thailand has achieved his dream of collecting more than one ton of gold to help cash-strapped Thailand, according to a recent *Reuters* article. Thailand recently accepted a \$17.2 billion bail-out package from the International Monetary Fund. One ton of gold is the equivalent of roughly \$8.5 million--not much against the outstanding Thai obligation.....Oh well. It's the thought that counts.

### NEWS & VIEWS

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**Short & Sweet.....** Buried in the nation's financial sections last month, a report from Cap Gemini America revealed that 22% of America's largest companies are behind for Year 2000 -- up from 16% in November and 12% last August..... I suspect that that figure will grow as the year progresses. In addition the number of companies that have encountered computer failures stemming from year 2000 date miscalculations jumped to 72% in April from 55% in November, pointing to the real possibility that the Y2K scare could very well be more than the product of some overactive imaginations..... All of which raises the possibility that those shorting the gold market and keeping the price down are doing those folks who are preparing for these potential problems *a very big favor.....*The resurgence of inflation last week also caught many investors by surprise--resurrecting a long-held concern. Many have noted that inflation no sooner appears galloping over the hill than it is at near double digits--now in the 7-8% range. If the Fed decides not to raise interest rates, I would say that public concern over inflation is running well ahead of the Fed at this juncture.....Terming the current equity environment "extremely maniacal and dangerous," Arch Crawford (*Crawford Perspectives*) notes: (1) the richest man in America selling 7 million shares of Microsoft, and (2) the second richest man with \$14 billion in cash-- "What do they know that we don't know?".....Nick Guarino (*Wall Street Underground*), not one to mince words, foresees this evolution in the Balkans: "I present to you the dawning of Clinton's Viet Nam. It starts with smart bombs. Then a vast buildup of aerial weapons. Next comes a small commitment of ground troops (called peacekeepers). As more incidents occur, NATO will send in more ground troops. They will declare a no-fly zone. Finally, all-out war. A long, drawn-out war that involves millions of troops; affects a population area of at least one hundred million people; with several million dead, and a hundred thousand U.S. casualties.".....Needless to say, we hope that Guarino misses the mark on this one.....Last month we featured an article on government finance in which we showed that the government is not only running a deficit and adding substantially to the national debt, it is covering up those additions by "borrowing" from the social security fund. Now, Congressional Republicans have introduced legislation to stop the raids on the fund. A social security "lock box" is being urged which would lock the money away under strict Congressional oversight. The "lock box" is meant to prevent political raids by the Administration "and others" to pay for their pet projects....."Under current law, the president can simply issue IOUs to the Social Security trust fund, while he spends the money for other things," says Rep. James Rogan. "This is wrong.".....Remember the crazy aunt in the attic??.....

**Nine Investment Lessons Learned**

It is easier to make a fortune than keep it.

Intelligence is an inadequate substitute for wisdom. Wisdom fears, respects the unknown and fosters humility. Intelligence can lead to self-destructive arrogance and ultimate failure.

Risk must have premium, and we must understand it well.

There is no order. There is no formula. There is no equation that works all of the time. It works just long enough to fool just a few more of us just a little longer.

What we fail to remember is that a paper gain is just that. Paper. Worth nothing. Not until we say sell, and not until we get cash. Anything less is just that.

When the Bass Brothers in Texas write a check for real money, their money, to buy 25% of the Freeport McMoran Gold Series II, we take notice. When the Fidelity Magellan Fund buys a fifty-million in Dell computer, we yawn. So, should you. It is other people's money.

Slick advertising budgets, powerful computers and few slabs of marble do not, by themselves, make a great financial institution.

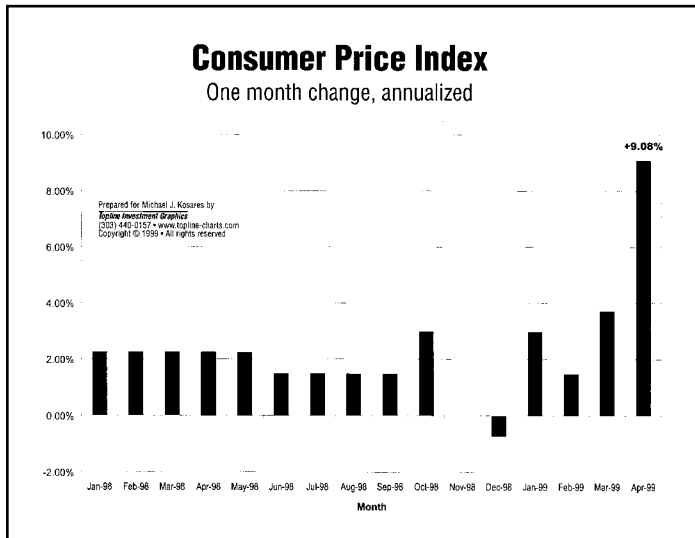
Never invest in anything you do not feel comfortable with or understand well.

When a thousand people say a foolish thing, it is still a foolish thing.

These Nine Lessons were published in a recent edition of R.E. McMaster's *The Reaper*. Says McMaster, "The above was written by an acquaintance of mine who is a highly respected money manager for wealthy Greek and Mexican industrialist families. He prefers to remain low key and anonymous at this time."

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**Short & Sweet, continued**.....As we go to press, rumors abound that Argentina is about to devalue its peso. Argentina is responding to Brazil's devaluation--a circumstance which we warned could set off a wave of devaluations in Latin and South America.....The Commodity Research Bureau reports that "[a] slight rise in U.S. inflation prospects seems to have hurt the U.S. Dollar, which also failed to respond in its usual manner to better weekly stats (in early May). This suggests that the dollar might also be turning.".....The yen has been strong of late. With money turning around and going back to Tokyo from New York, the dollar could be in for



more problems down the road.

.....As reported in the book Culture Wars compliments of *Otto Scott's Compass* newsletter: "Zoo keepers in St. Petersburg, Russia, tried to teach two orangutans by showing them videos. The orangutans became so interested in watching the television that they ignored their baby.".....I wonder if the video was Planet of the Apes.....Good news for our many clients in Colorado: Legislation relieving Colorado investors of paying the sales tax on their precious metals purchases passed both houses and now awaits approval on the governor's

desk. Governor Bill Owens was a sponsor of an earlier version of this legislation so we hope he will view it favorably. If signed, the new law will go into effect July 1, 1999.....The Food and Agriculture Organization of the United Nations is warning the world's farmers that the Millenium Bug "threatens serious repercussions for food supplies for developing countries. FAO has warned that 'at least in the near term, the Millenium Bug could prove to be the one of the most dangerous pests threatening farmers, along with locusts and brown planthoppers they have battled with throughout the centuries.' ".....Please pass the insecticide.....According to a *Business*

*Week* article at the beginning of May, the Clinton Administration was planning to re-appoint Alan Greenspan as Chairman of the Federal Reserve in order to give Al Gore's flagging presidential bid a boost..... Clinton aides are betting Greenspan will take the offer..... "The chance of a banking panic is increasing dramatically," according to Y2K maven, Jim Lord. "The Fed is taking strong actions behind the scenes." Also from Jim Lord: "It is more and more likely Y2K will create disruption in the supply of oil. Venezuelan and Middle Eastern oil refineries are shot through with embedded systems many of which are date sensitive...Three of five refineries in Venezuela will be shut down after the first of the year because of severe and irreparable Y2K problems. Venezuela accounts for 17% of the oil used in the U.S.".....More and more experts are moving away from concerns about the lights going out January 1, 2000 and concentrating on the ramifications of thousands of computer failures world-wide in a variety of industries and what that will do to the world economy.....Well, that's it for this issue, my fellow goldmeisters. Happy Trails until we meet again. Have a pleasant early summer but remember to keep an eye on world political and economic developments. We do not think this is going to be a quiet summer.....MK



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