

NEWS & VIEWS

Fall, 2003

*A Quarterly Review of Forecasts, Commentary & Analysis on the Economy and Precious Metals
Celebrating Our 30th Year in the Gold Business / Centennial Precious Metals / Since 1973 / www.usagold.com*

"The rich old speculator Bernard M. Baruch forehandedly bought gold and gold shares after the 1929 Crash. Years later a suspicious Treasury Secretary asked him why. Because, Baruch replied, he was 'commencing to have doubts about the currency.' Many are beginning to doubt the strength of the dollar as they well might. Following Baruch's example, they should lay in some gold as a hedge."

-- James Grant, *Grant's Interest Rate Observer*

WELCOME TO OUR FALL ISSUE

You are receiving this newsletter at a time of unprecedented interest in gold--the reasons for which are covered extensively in this edition of our Quarterly Review. Purchase volumes and inquiries are running at levels we haven't seen in many years. To what do we attribute this surge of interest?

Certainly, the situation in Iraq has been a driver. So have concerns about the stock and bond market as well as the dollar. (Please see USAGOLD Survey of Investments to your immediate right.) The fact that gold rose more than 20% over the past 12 months hasn't hurt either. But more than that, as we ramp up for the 2004 election year, we sense investors are concerned fundamentally with the direction of the country. Things just don't seem to be going right. Ed Stein captures the mood well in the political cartoon appearing on page five.

In this issue, starting with concerns about the federal government's fiscal crisis registered by the U.S. Comptroller General and ending with Andrew Dickson White's landmark study of the French post-revolutionary fiat money crisis, you will find not only some of the best thinking on what presently ails the American (and world) economy, but also strategies to buttress your portfolio against an uncertain future.

So, we invite you to grab a hot toddy, take that chair near the fire, and make this Quarterly Review part of your autumnal reflections. As always we would like to thank you for making USAGOLD ~ Centennial Precious Metals your friend in the gold business. It is your purchase from this firm that nourishes these pages.

--- Michael J. Kosares

Outperforms All but Oil in Annual Study

Gold Up over 20% in USAGOLD Survey

Gold has been one of the top-performing investments over the past 12 months, garnering a return of over 20%, according to the USAGOLD ~ Centennial Precious Metals Survey of Investments. Stocks, which have received most of the media attention in recent weeks, posted a gain just under 20%, but many analysts and investors see the dynamics of gold and stocks as markets headed in two different directions. Gold, they say, is a market just off cyclical lows and is now at the beginning of secular bull market while stocks appear to be once again reaching the point of exhaustion.

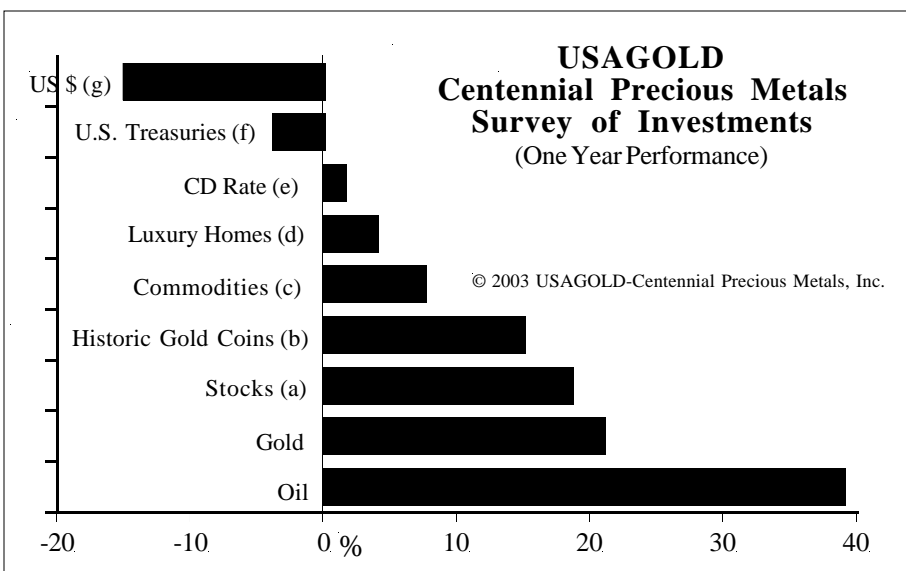
Historic U.S. gold coins are also on the move -- up about 15% over the period after a long period of dormancy, while commodities--which have also attracted a great deal of attention in recent weeks--were up about 7%. Surprisingly, luxury home prices seem to have cooled off -- up only 4% and lagging the rest of the hard asset sector. Paper investments in general have posted less than stellar returns led by the US Dollar--down 15%. Stocks, in this respect, have been an anomaly.

One top analyst who sees gold and stocks moving in opposite directions for the medium to long term is John Hathaway of Tocqueville Funds. Referring to the recent stock market rally, he says: "It's a suckers' rally. Japan had four of them during the nineties and at the end of the decade, the Nikkei Dow was 80 percent off its peak." He sees gold breaking through the \$400 barrier soon.

Dow Theory Letters' Richard Russell, who sees gold and stocks crossing at the 2000 mark, agrees with that assessment:

"Subscribers, listen to me. The future is being carved out as I write. The future is going to be the US government printing massive amounts of Federal Reserve Notes

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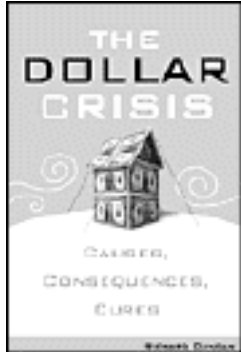


All Statistics compiled in or around 10/15/03. (a) Dow Jones Industrial Average, (b) USAGOLD Index of Historic Gold Coins, (c) Commodity Research Bureau index, (d) Wall Street Journal Real Estate Index, (e,f) Barron's Market Laboratory, (g) U.S. Dollar Index

GOLD NUGGETS

The Preferred Store of Value

During the three decades since the collapse of Bretton Woods, the United States has incurred a cumulative current account deficit of more than \$3 trillion. As that amount of dollars entered the banking systems of the those countries with a current account surplus against the United States, it



set in motion a process of credit creation just as if the world had discovered an enormous new supply of gold. That credit creation backed only by paper reserves has generated a worldwide credit bubble char-

acterized by economic overheating and severe asset price inflation. That credit bubble is now precariously close to imploding, because much of that credit cannot be repaid. The economic house of cards built with paper dollars has begun to wobble. Its fall will once again teach the world why gold -- not paper -- has been the preferred store of value for thousands of years.

Excerpted from
*The Dollar Crisis:
Causes, Consequences and Cures*
by Richard Duncan
Recommended Reading.

News & Views

Forecasts, Commentary & Analysis
on the Economy & Precious Metals

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USAGOLD Investment Survey, cont. . . .

(we call them "dollars") in order to pay off debts and unfunded liabilities coming due. The future is going to be dollar deterioration and a move out of financials and into tangibles. The future is going to be a flow of funds out of paper and into real wealth -- gold and silver. I don't know how many of my subscribers have moved into gold and silver and gold and silver shares. In my opinion, the precious metals are still on the bargain table. Compared to the amount of paper that has been printed, the precious metals are ridiculously cheap. Gold was \$850 back in 1980. Gold today is less than half its 1980 peak price. Before this bull market in the metals is over, I expect 1980's peak price to be far surpassed."

We will end with some interesting anecdotal evidence of the shift in investment interest, first from *CBS MarketWatch's* Thom Calandra:

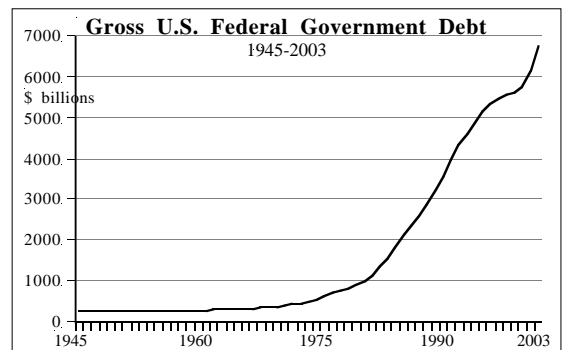
"Most portfolio managers have no faith in what they own, except for the commodities crowd. . . This hit home with me two months ago, when I was at breakfast with a \$1 billion asset manager, a \$300 million asset manager and the chief executive of a commodities miner whose shares in the weeks that followed doubled in price. Both managers said they were desperate to lighten up on the small-cap technology stocks they owned and wanted a foot into the world of hard assets, be they copper, gold, platinum, nickel, zinc or iron ore."

And last from the *Financial Times*:

"The record sale price last week for a seat on Comex, the metal futures arm of the New York Mercantile Exchange (Nymex), reflects the belief that there is still serious money to be made in commodity trading."

Government Official Warns of Looming Fiscal Disaster

In a recent speech before the National Press Club, Comptroller General of the United States, David Walker pointed to the burgeoning federal government debt -- \$15 to \$20 trillion by some estimates when future Social Security and Medicare benefits are included -- as a ticking time bomb in the U.S. economy. "Our projected budget deficits," he says, "are not manageable without significant changes in status quo programs, policies, processes and operations." Former Treasury Secretary Robert Rubin echoes Walker's concerns saying "there is no question that these conditions pose a very serious threat to our economy." I might add that another nearly \$600 billion was added to the national debt in fiscal year 2003 -- a sum not included in Walker's numbers. It is not simply that the government has a spending problem. The fact of the matter is that the situation is getting markedly worse. That 'serious threat to our economy' -- the looming federal government fiscal disaster combined with the rapidly growing trade deficits (*See "West to East: The Trade Deficit Represents Largest Wealth Transfer in History"/Puplava, pg. 4)*)--remains one of the better arguments for diversification out of the dollar and into gold.



Thus, the following comments from Comptroller General, David Walker:

"As was noted in my introduction, as Comptroller General of the United States I wear many professional hats, including serving as the head of the GAO, lead partner on the audit of the U.S. Government's consolidated financial statements and the de-

(Continued on next page. . . .)

GOLD NUGGETS

China's Gold Rush

It is "safe and feasible" for China to spend part of its foreign exchange reserves on gold imports, as well as place such purchases on the domestic market and open the market to individual players at the earliest possible opportunity, said Xi Jianhua, Bank of China's gold business expert. About 20 per cent of respondents to a recent national survey said they were willing to spend 10 to 30 per cent of their savings in gold investment, indicating a huge potential demand for gold. . . Based on the survey results, Xi estimated that a possible injection of as much as 300 billion yuan (US\$36.15 billion) in private money could flow into the gold market. . . .

The money would create demand for about 3,000 tons of gold, he said. It would then only be natural for the country to expand imports as China currently has just 600 tons of gold reserves at its disposal, far from enough to cope with the potential gold rush. In the initial stages, individual investors would create a market demand for 300 to 500 tons, according to analysts, and further growth would be gradual.

--China Daily (Hong Kong edition)

[Editor's Note: This amounts to a less than subtle hint from a top Chinese central bank official that gold will play a central role in China's monetary diversification. Consistent annual demand from China--both from private investors and the Chinese central bank--could build a foundation under the gold market for many years to come. Since worldwide gold demand runs roughly 4000 tonnes annually, a 500 or 600 tonne initial demand out of China counts as a substantial addition to the gold equation and could send the price on a solid, long-term upswing.]



Fiscal Crisis, cont. . . .

Selected Fiscal Exposures	
(In billions, end of fiscal year 2002)	
Publicly Held Debt	\$ 3,540
Held in Military and Civilian Pensions	\$ 2,673
Veterans Benefits Payable	\$ 849
Environmental Disposal Liabilities	\$ 273
Loan Guarantees	\$ 28
Undelivered Orders	\$ 539
Long-term Leases	\$ 50
Unadjudicated Claims	\$ 9
Pension Benefit Guaranty Corp	\$ 36
Other National Insurance Programs	\$ 8
Debt Held in Gov't Acc'ts	\$ 2,674
Future Social Security Benefits	\$ 3,549
Future Medicare Payments	\$ 5,931

(Based on Government Accounting Office statistics)

facto Chief Accountability Officer of the United States Government. On a more personal note, I am a citizen, taxpayer, father and grandfather. While each of these roles provides me with a different perspective on the financial and fiscal challenges facing our nation, they all lead me to the same conclusion: We must begin to come to grips with the daunting fiscal realities that threaten our nation's children's and grandchildren's future."

"Importantly, while we are starting off in a financial hole we don't really have a very good picture of how deep it is. (See table above.) Specifically, there are a number of very significant items that are not currently included as liabilities in the federal government's financial statements; for example, several trillion dollars in non-marketable government securities in so-called 'Trust Funds.' In the case of the Social Security and Medicare Trust Funds, the federal government took in taxpayer money, spent it on other items and replaced it with an IOU. Given this fact, why aren't the amounts attributed to such activities shown as a liability of the U.S. Government? At the present time, they are not! Does this make sense, especially when the government continues to tell Social Security and Medicare beneficiaries that they can count on the bonds in these "Trust Funds"? Is the federal government trying to have its cake and eat it too?"

"While many members of Congress and other key policymakers and opinion leaders agree that we have a major fiscal challenge that must be dealt with, many do not want to talk about it publicly."

Dr. MoneyWise says:

For Age and Want and Surety of your wealth, save Gold while you may. No morning Sun lasts a whole day.

"While reasonable people can and will disagree about the nature and extent of our long-range fiscal challenge and how to best address it, the time has come for all responsible parties to recognize reality. Our nation has a major long-term fiscal challenge that is not going away and requires serious and sustained attention."

"In closing, while I hope this serves as a 'wake up call,' it is also time for a 'call to action.' My fellow 'baby boomers' and others need to recognize the leadership and stewardship obligations that we have to our children, grandchildren and future generations of Americans. In addition, members of Generations X and Y need to become actively engaged in this debate because they and their children will bear a disproportionate portion of the burden and adverse effects if policymakers fail to act in a reasoned and responsible manner."

GOLD NUGGETS

Trichet's Strong Euro Policy

With France's top central banker, Claude Trichet, taking over for Wim Duisenberg at the European Central Bank, what can we expect in changes with respect to the EU's view of the dollar-euro relationship? And how, in turn, will this affect the gold market? In terms of gold policy, France has always been pro-gold going back to the days of Charles DeGaulle, and we expect a Trichet term as head of the ECB to carry a positive gold imprint. French monetary officials came out very strongly on the public record against gold leasing, for example. With respect to euro policy, Trichet is viewed as an inflation hawk. He implemented a strong franc policy as governor of the Bank of France. A recent *Financial Times* article characterized him as "dapper with a fondness for modern French poetry," a "monetary diplomat," and "politically savvy." The French press, says FT, called him "the Ayatollah of the strong franc." Assuming he is the ideal ECB boss to implement the developing strong euro policy, this could translate to a policy in concert with the Bush administration's push to weaken the dollar. This, in turn, could provide a strong impetus for higher gold prices over the weeks and months to come.

* * *

"Indeed, we cannot see that, in this respect, there can be any other criterion, any other standard, than gold. Oh, yes! Gold, which never changes its nature, which can be shaped into bars, ingots or coins, which has no nationality and which is eternally and universally accepted as the unalterable fiduciary value par excellence."

-- Charles DeGaulle

He who has begun has half done.

Dare to be wise; begin!"

-- Horace (65-8BC) --

"The US dollar is fundamentally & technically very weak and should fall dramatically. However, other countries are very reluctant to see their currencies appreciate and are resisting the fall of the US dollar. Thus, we are in the early stages of a massive global currency debasement which will see tangibles, and most particularly gold, rise significantly in price."

-- John Embry, *Sprott Asset Management*

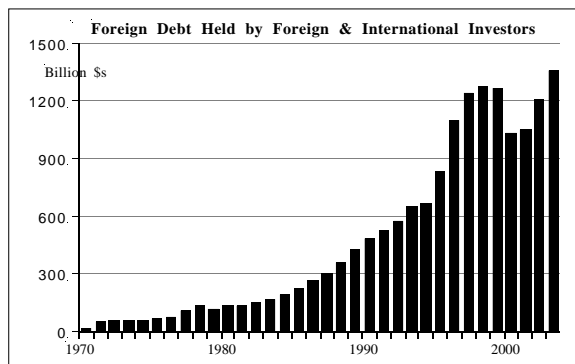
West to East: The Trade Deficit Represents Largest Wealth Transfer in History

by Jim Puplava

Once the consumption fallacy is understood, it is much easier to see why the economy is breaking down. Businesses are trying desperately to conserve cash and maintain profits by slashing payrolls and cutting capital spending. Workers are losing their jobs and going deeper into debt in order to maintain living standards. Consumer spending increasingly goes towards the purchase of foreign made goods. The money spent on consumption is then transferred to foreign producers. These foreign producers then take those dollars and deposit them in their own domestic banks. Central banks in those countries then take those dollars and recycle them back into the U.S. by buying up our financial assets.

This represents the largest wealth transfer in history. The U.S. is trading all of its accumulated wealth and savings for consumable goods. Our monstrous size trade and current account deficits are a reflection of this fact.

To put this into perspective from December 1999 to June of this year,



world dollar currency reserves grew by \$870 billion, of which \$665 billion is held in Asia. These large dollar reserves overseas represent a clear and present danger for the U.S. economy. Asia now holds \$1,000 billion of foreign exchange reserves out of a global total of \$2,500 billion. Most of these reserves are held in U.S. dollars that come from trade imbalances between Asia and the U.S. Asian dollar reserves are part of a deliberate policy of Asian central banks intervening into the foreign currency markets selling their own currencies and buying U.S. dollars in order to keep their own currencies from rising. In the last month alone, Japan has spent over \$38 billion in order to contain the yen's rise against the greenback. Last year according to the Bank for International Settlements, central bank reserves of dollars rose by \$220 billion. This represents almost half of last year's U.S. current account deficit.

The risk to the U.S. and to Asia is twofold. Asian countries are experiencing higher interest rates on their own debt, while the loans they make to the U.S. by buying our debt is at a lower interest rate. This is done to sterilize their own intervention by neutralizing the excess supply of money into their own domestic money markets. Essentially what Asian central banks are doing is trying to keep their own currencies from rising against the dollar. This necessitates constant buying of dollar assets in order to keep their own currencies from appreciating. This is creating a financial anomaly. Asia is experiencing faster economic growth rates, rising trade and current account surpluses, and higher returns on capital. By investing in the U.S., Asia gets a lower rate of return than it would by being invested in their own countries.

This imbalance in global trade and investments cannot persist forever. The U.S. current account deficit, which is the broadest measure of international transactions, is now running at 5% of GDP. This means that the U.S. must attract \$50 billion of foreign capital a month just to balance its books. The need to import capital doesn't end with the trade deficit. The U.S. budget deficit, which will rise to \$455 billion in fiscal 2003, is projected to balloon to \$600 billion next year. The projected trade deficit is also expected to rise. The United States will require \$1.2 trillion of new capital just to pay its bills. The combination of these twin deficits could have a major impact on dollar depreciation producing more of an abrupt adjustment rather than a smooth transition to a lower rate of exchange. When this process of adjustment

(Continued on next page. . .)

GOLD NUGGETS

Why Gold Is Glittering

Gold has been soaring lately and observers have been reaching for reasons behind the move almost as avidly as investors have been reaching out to get a hold of the glittery stuff. Gold is up because investors are becoming wary about inflation and are looking for a hedge. Gold is up because the bombing in Mumbai made heavy Indian demand even heavier. Gold is up because China's central bank is going to start buying more of it. But it may be that the strength in gold, which jumped \$29 to \$375 an ounce over the past month, owes less to any specific event than it does to countries around the world fighting to keep their currencies weak. Because currencies can't weaken against each other in the world of competitive devaluations, they must weaken against other things. Gold, because it shares the characteristics of both a currency and a commodity, fits the bill nicely. "You can sort of think of it as a tide going out," said Rhodes Analytics head Bill Rhodes. "Gold isn't affected by the tide, because it isn't a fiat currency. So when the value of currencies drops, it emerges as a big rock."

-- Justin Layhart, *CNN/Money*

* * *

Stock Market's Cruel Lesson

William O'Neil, the founder of *The Investor's Business Daily*, says that Americans lost between 50% to 80% of their stock portfolio value during the three-year market turndown. He went on to say that investors lacked the discipline to get out when the market started to collapse because they didn't believe that stocks would fall as far as they did -- a cruel lesson he believes could have been avoided. The time to buy, he says, is when stocks are rising like now. But is he asking the public to put good money after bad?

Some believe he is. Pointing to the ultra-high 37.5 times price/earnings ratio, Don MacAlvany of *MacAlvany's Intelligence Advisor* thinks this stock rally is a trap designed to help insiders unload their stocks, and take what's left of investors' savings and retirement funds. "We are in a new speculative bubble," he says, "fuelled by the biggest spending administration and most inflationist Fed in U.S. history."

Wealth Transfer, cont. . . .

begins, interest rates in the U.S. will begin to rise. It will wreak havoc on debt-laden consumers and heavily leveraged companies and the American economy overall.

In essence, interest rates here in the United States will be determined more by the actions of foreign central banks and currency traders than decisions by the Fed or the U.S. Treasury. The U.S. may be a global superpower, but it is a superpower that is totally financed by foreign capital. Asian central banks keep 80-90 percent



of their foreign currency reserves in dollars. It is those foreign currency reserves that finance the U.S. economy. During the 80's Japan financed the bulk of America's deficits. Subordinating their monetary policy to support the U.S. dollar led to Japan's bubble economy from which it has yet to recover. The Japanese are still financing our deficits, but they have now been joined by China and other Asian countries that run large trade balances with the U.S. China's support of the dollar is producing monetary growth of 20 percent a year and hyperactive economic growth of almost 8% a year. This kind of monetary growth could create the same kind of misallocation of capital as the money boom did in Japan in the 1980s.

These large trade imbalances and the U.S. twin deficits pose a major risk to the global economy. Foreign heads of state now face an issue of how to bring down the dollar without creating havoc in the global economy. At the recent Dubai summit, the Group of Seven leading countries called for greater exchange rate flexibility. (That is diplomatic talk for dollar depreciation.) However, how do the major G7 countries do this without creating major dislocations in the global economy? The economies of Europe and Japan are fragile and barely growing. If the yen continues to rise further, it would already jeopardize Japan's anemic recovery. The same holds true for Europe. Both economies are dependent on exports to the U.S. and the American consumer's appetite for debt-based consumption.

Jim Puplava, *Financial Sense On-line*, www.financialsense.com

In "Look Beneath the Golden Gleam", economist Tim Lee explores the underlying reasons for the developing bull market in gold. It is well worth your attention. He concludes with this observation: "The weakness of gold until the end of the 1990s was therefore integral to the financial bubble environment, both as a cause and an effect of the inflation of financial asset prices. This perspective leads to two main conclusions. First, the new upward trend in the gold price may well point to the fact that the post-bubble adjustment process still has some way to go. Second, particularly if it continues, it will be an indicator that Fed policy has indeed been too lax and ultimately inflationary. This implies that the Fed's latitude for policy action is

(Continued on next page. . . .)

GOLD NUGGETS

Gold Could Hit \$400 by Year End

Gold could soar over \$400/oz. in the next two months as the fundamental view of the dollar as a haven for global investors changes and the market moves to the safety of gold. Despite the metal's lacklustre performance over the last week, ABSA economist Chris Hart said gold's strength--and the weakness of the dollar and stock markets -- were symptomatic of the stress in global financial markets. This stress, Hart said, would push investors away from the dollar and into gold as thinking on the strength of the dollar changed.

He added that the total size of the gold market is so small relative to those of currencies that a small move into the market could easily drive gold over the \$400/oz. level before the end of the year. "The dollar is on the first leg of a multi-year bear trend, and the mirror image is in gold, which is in a multi-year bull trend," he said.

Hart said the potential for the dollar to weaken even further was there, because the US was running massive double deficits -- on its current account, and on its budget. "Japan's foreign exchange reserves rose \$144 billion to \$605 billion in the year to September, and that rise was equal to one third of the US's current account deficit," Hart said. That increase in Japan's reserves also exceeds the gross domestic product of South Africa.

"The poor performance of stock markets is ongoing, and that provides enough fuel for gold to push higher," Hart said.

-- Daniel Thole, *Mineweb.com*

"Neither the stock or bond market is capable of delivering anything close to the returns of the last twenty years. Once investors 'get real', they will migrate from paper to tangible assets. Gold is the tangible asset of choice when confidence in paper sinks. Only denial of reality stands between the rising of the former and the sinking of the latter."

-- John Hathaway, *Tocqueville Funds*

Golden Gleam, cont. . . .

becoming much narrower. When these conclusions are added together, they suggest an outlook for the global economy, and both bond and stock markets, that is much less benign than the optimists would have us believe. Investors would do well to look more closely at gold's steady rise."

"Why do I pick gold bullion in the form of gold coins? I pick gold coins because they represent timeless, totally safe wealth. The world is loaded with debt. The world is creating debts by the second, by the minute, by the day. All these debts must be either paid off or translated into bankruptcies. If they are paid off, they will be paid off by additional money created by central banks, and that's clearly inflationary. Thus the big picture is a global decline in the purchasing power of paper currencies. Since gold can't be mined as fast as paper currencies are created, the ratio of real money, gold, to paper currencies, spins up and off into the wild blue yonder. Ultimately, when holders of paper realize the swindle that they've been caught in, there'll be a panic to transfer their paper 'wealth' to real money. That is when the panic for gold will begin."

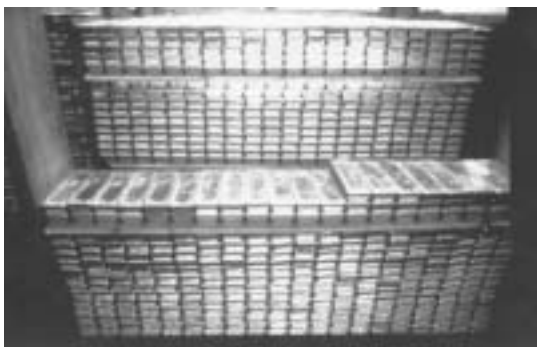
-- Richard Russell, *Dow Theory Letters*

"Looking at gold as a monetary asset leads to some other puzzling questions. First, we have to remember that gold these days is actually a rather small market. The total value of new mine production is just over US\$30 billion. While that is considerably more than my wine bill, it is only two-thirds of the cash held by Microsoft. In other words, Bill Gates could propose to the Microsoft board that it purchase the entire output from every gold mine in the world for one year and still have the best part of US\$20 billion in change. Or look at it another way. In May of this year, foreigners spent US\$100 billion purchasing bonds sold by the US Government. By foreigners, we mean central banks in Asia who are the biggest buyers of US Treasuries. So in one month these banks spent money equivalent to buying three years' worth of new gold production."

-- Rob Davies, *the MineSet*

Dr. MoneyWise says:

Consider this: Those a Quarter richer today can be a Dime poorer tomorrow and Never know the reasons why. While those, like me, who put Gold away have truly Saved for that Rainy Day!



File Photo: Moneywise Gold Room/2003



The Color of Your Money

Currency analyst, Lawrence Patterson, predicts a dollar devaluation and accompanying gold confiscation. What you can do.

by Cliff Droke

After repeated warnings from currency analysts and market advisors (including yours truly) that the U.S. currency system is on the verge of becoming a blocked, two-tier system we now have confirmation that the country is one step closer to realizing this. When fully implemented, the new U.S. dollar will mean a “banana republic” type currency and across-the-board devaluation.

According to a CNN/Money news wire report of Oct. 7, the new U.S. \$20 bills will be released this week at banks across the country. Meanwhile, the Fed and its Bureau of Engraving and Printing (BEP) will hold a nationwide series of publicity events as part of a \$33 million campaign to let the world know of the new bills and to acclimate the public to their strange new appearance.

The new \$20s are peach-toned with the presence of blue ink, making it the first time in almost 100 years that a mass-circulation U.S. note has prominently contained a color besides green and black. They also contain an embedded vertical plastic strip and color-shifting ink, whose appearance changes from copper to green as the bill is tilted against the light.

So what is the significance of this change of color in the U.S. \$20 note? Well, according to the Feds, it is designed as a deterrent to stop counterfeiters. But according to currency analyst, Lawrence Patterson, who authored the 1994 monograph titled “Currency Recall”, which accurately forecast the new multi-colored notes, the new colored money is part of a two-tiered currency system that will have drastic implications for investors and non-investors alike here in the U.S.

Patterson calls the new notes “crayola currency” and claims they will circulate domestically while the normal green currency that we’ve grown accustomed to will circulate offshore all over the globe. According to commentator Terry Savage, “Two-thirds of the U.S. paper currency is circulating in foreign countries.” With the coming two-tiered currency system, foreigners will continue to be allowed to use the greenback while U.S. citizens will be stuck with the “crayola currency” which cannot be exchanged.

Patterson forecasts the coming use of foreign exchange controls for the U.S. dollar domestically, which would prohibit Americans from transferring capital to any other world currency. Again, this is discussed in Patterson's now-classic monograph “Currency Recall” (which I've read and highly recommend to students of currency policy and investors seeking to retain the value of their investments).

Patterson states, “I want every one...to think carefully about this...because we are coming very, very close to the end of the freely convertible domestic dollar. The cut in value could be as much as 50%...I believe those holding gold bullion bars offshore and bullion coins domestically will be very surprised to find that special regulations will prohibit them from profiting.”

He further maintains that coin dealers are under a strict Treasury regulation and must report your sales of some coins but not others. The rule is as follows: Coins with a premium above 15% do not have to be reported. In addition to the 1099 report, filed by the coin dealer, you have to declare any capital gains as well.

He continues, “The existence of this rule, I believe, indicates an intent to outlaw the ownership of bullion coins altogether! However, the rule will not remain at 15% necessarily and could be changed to a higher percentage, which is unknown at this time. Obviously, you do not want to own any investment coins with a premium of 15% or less and better stay at the 25% or 30% level to be safe.” Patterson points out that complications for the government would clearly arise should numismatic collectibles be forcibly confiscated since the bullion coins' value can be determined by the London gold fix, but not so for collectibles. “The price of the collectible coin may or may not be easily determined as numismatic valuables are routinely auctioned off at prices of not only tens of thousands of dollars, but hundreds of thousands of dollars per item,” he observes. “It is difficult to imagine just how this would all be sorted out by the bureaucracy to come up with a calculation of compensation that would relate to the market value.” He advises staying in the “safe zone” and exchanging bullion coins not needed for emergencies (such as food or gasoline

shortages, et al) for numismatic coins with higher premiums.

Obviously, the introduction of the new peach-colored \$20 bill is a test on the American public to see how they respond to the drastic new changes. . . If the government succeeds in getting the American public to accept the bills, the other remaining denominations will obviously follow and plans will proceed for the blocked domestic dollar.

Cliff Droke is the editor of the monthly *Gold Strategies Review* newsletter and author of “How to Trade Gold & Gold Stocks.” He can be reached at www.clifdroke.com.

Editor's Note: Lawrence Patterson is sure to stir up a hornet's nest with some of the opinions expressed herein. Though we do not necessarily agree with everything he says, we do believe it is important to expose our readers to his controversial message. To increase your understanding of the issue and what you can do to protect your gold holdings, we recommend contacting us to receive our *Client Memorandum: How You Can Survive a Potential Gold Confiscation*. (offered free by e-mail). For those concerned about a confiscation, our firm is one of the highest volume purveyors of quality pre-1933 European and U.S. gold coinage in the United States, including those mentioned in the accompanying article.]

* * *

Important Client Note: Much of what Lawrence Patterson predicts is possible. However, we disagree with him on some of the technical details -- particularly the “15% rule.” That was part of the proposed IRS regulation that never made it to the final version. Instead, Treasury issued a specific list of reportable coins. At the same time, the regulations with respect to tax-reporting requirements -- whatever they are -- are not necessarily the same rules which would apply to a confiscation. As explained in our *Client Memorandum* (mentioned above), we continue to believe that ownership of *any* pre-1933 gold coins offers the most effective (though not foolproof) and low-cost protection against the potential for both capital controls and confiscation. For those who agree with Mr. Patterson and wish to “safe-zone” their position as he prescribes, the U.S. Liberty and St. Gaudens \$20 gold pieces in uncirculated condition offer the best recourse. As most of you are aware, these coins are already on our recommended list for other reasons. Please contact us for details.

USAGOLD

Centennial Precious Metals

Serving gold investors since 1973

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Portfolio Selections and Client Services



U.S. Gold Eagle Bullion Coins

Portfolio diversification is the hallmark of the prudent investor. For millions worldwide, sensible diversification includes gold ownership. To help you meet that essential need, we have prepared this overview of portfolio selections and client services offered by USAGOLD-Centennial Precious Metals.

Founded in 1973, we are one of the oldest and most prestigious gold firms in the United States. We invite you to take advantage of our 30 years experience in the gold industry by joining our long list of satisfied and valued clientele.

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Gold's principal portfolio role is asset preservation--an insurance policy against inflation, deflation, equity market weakness, systemic risks in the banking/financial sector, and general social, political and economic instability. As such, it is the ultimate fiduciary asset par excellence and it is free of contingent liability. It protects wealth now as it has throughout history. Our principal mission is to assist investors who share this understanding of gold's primary portfolio role as a hedge and diversification. That having been said, we recognize that from time to time gold represents extraordinary investment possibilities and thus offers assistance to individuals seeking capital gains.

We offer three primary groupings of gold items:

1. contemporary bullion products in coin and bar form,
2. pre-1933 world and United States gold coins,
3. United States collector gold coins

How you structure your portfolio depends upon your personal financial needs and goals, and should be done in concert with your advisor at the firm. We are happy to work with you in finding the right mix to best weather the uncertainties ahead and maximize your return.

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Austrian Philharmonic

Canadian Maple Leaf

Australian Nugget/Kangaroo

South African Krugerrand

Major bullion bars in standard sizes also

U.S. 90% Silver Bags (\$1000 face value)

Silver, Platinum, Palladium bullion bars (standard weights)

Pre-1933 World Gold Coins

These low-premium items provide all the protections of bullion gold and track the gold price, but because they are categorized as historical collectors' items, they uniquely offer an additional layer of insurance for the privacy-oriented investor.



- Argentina 5 Peso (.2334 ozs.)
- Great Britain Sovereign (.2354 ozs.)
- Denmark 20 Kronor "Mermaid" (.2592 ozs)
- France 20 Franc "Rooster" (.1867 ozs)
- France 20 Franc "Angel" (.1867 ozs.)
- France 20 Franc "Napoleon" (.1867 ozs.)
- German 20 Mark (.2304 ozs.)
- Italy 20 Lira (.1867 ozs.)
- Netherlands 10 Guilder "King" (.1947 ozs.)
- Netherlands 10 Guilder "Queen" (.1947 ozs.)
- Sweden 20 Kronor (.2592 ozs.)
- Switzerland "Helvetia" (.1867 ozs.)
- Switzerland "Confederatio" (.1867 ozs.)
- Uruguay 5 Peso (.2501 ozs.)

Pre-1933 United States Gold Coins

These items offer the same protections as the pre-1933 World Gold Coins but find a consistently strong market with US-based investors who prefer them for their beauty and familiarity.



- \$20 Liberty (.9675 ozs.)
- \$20 St. Gaudens (.9675 ozs.)
- \$10 Liberty (.48375 ozs.)
- \$10 Indian (.48375 ozs.)

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We offer US \$10 and \$20 gold pieces and US silver dollars in collector grades in the higher ranges of uncirculated condition. This area has become a very important portfolio inclusion for those seeking a higher risk-reward ratio in their gold holdings. All the items we offer in this category are authenticated and graded by third-party verification services.



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Small Order Desk

For purchases of less than \$5000. Ask for Jonathan Kosares, extension #110.

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We tailor our portfolio advice to your needs and aspirations, not the other way around. No matter your level of interest, we have the knowledge, experience and capability to help you meet your gold investing goals.

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"Thanks for the enlightenment. I enjoyed your 'ABCs' book. The chapter on Government debt was almost scary. Even I could understand what I need to be doing for my family's future."

-- MD, Fulton, MO

"I appreciate your approach. That's the reason I am considering investing through you folks. I need education, not hype."

-- DB, New Ulm, TX

News & Views

A Quarterly Review of Forecasts, Commentary & Analysis on the Economy and Precious Metals

FALL, 2003

REPRINT SERIES

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VALUE HEDGE

by James Grant, *Grant's Interest Rate Observer*

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It is with great pleasure that we present the expanded version of a speech delivered recently by James Grant of *Grant's Interest Rate Observer* to the New York Institutional Gold Conference. Mr. Grant remains not only one of the most articulate spokesmen on behalf of gold, he is also regarded as one of the most insightful commentators on the contemporary Wall Street scene in general. Mr. Grant's case for gold is essentially this firm's case for gold -- that it is primarily a monetary insurance and a hedge presently available at what he deems to be "reasonable prices in view of the risks posed to the purchasing power of the dollar by the dollar's own stewards." From there, we will stand aside, so that the inimitable Mr. Grant can explain his attachment to gold in his own words.

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SEPTEMBER 12, 2003

Value hedge

On Monday, the editor of Grant's gave a talk at the New York Institutional Gold Conference. An expanded version of his remarks follows:

My name is Jim. I'm a value investor, and I own a stock with a 53 P/E ratio. In addition, I hold a long position in a certain precious metal, in the company of a record number of self-avowed "speculators." These are the things I have to live with.

In the S&P 500, only 72 stocks have a higher P/E than the one I just mentioned. Probably, many of you own it, too. It is Newmont Mining, a leading producer of the metal that brings us together today. In the non-gold portion of his mind, the thoughtful gold bull knows what usually happens to a stock quoted at such a rarefied valuation as Newmont's. It stars on CNBC and its P/E strains even higher. Then, one fine day, the critical marginal buyer decides to pass up the opportunity to make an investment that (holding everything constant) would make him whole again—in this example, in 53 years. As this would-be buyer steps aside, the high-P/E stock begins the long journey that may, one day, deliver it into the outstretched arms of the value investors.

My mission today is to try to reconcile gold and value, and it won't be easy. With hindsight, all can agree that gold was a rank speculation at \$850 to the ounce in January 1980. Similarly, we can see that it made a fine investment at \$252 to the ounce in August 1999. Yet, at both extremes of price, a shiny Krugerrand generated the same earnings and paid the same dividend as a 1999-vintage Internet stock.

"Value investing," according to author and investment practitioner Seth A. Klarman, "is the discipline of buying

securities at a significant discount from their current underlying values and holding them until their value is realized. The element of the bargain is the key to the process."

Gold, therefore, is no investment "bargain." It can't be one and it won't be one. It's a fact to bear in mind come the day CNBC launches "Gold Week," with Louis Rukeyser, or when Pierre Lassonde, president of Newmont, is made a Knight of the British Empire. Gold can't be an investment bargain because it has no "current underlying value" to sell at a discount to. Nor would it be a bargain even if it were quoted in the market at less than the cash cost of producing it (in the case of Newmont, about \$200 an ounce). The reason why is the very reason that gold is the legacy monetary asset. It is scarce and indestructible. So large are aboveground stocks in relation to any one year's production that the "gold supply" is relatively stable. In this it has a clear edge on the "money supply."

If gold isn't a bargain, what is it? It is a hedge. However, in my opinion, it is a hedge bargain. The value of a hedge should vary according to the cost and imminence of the risks being hedged against. In the case of gold, the risks are monetary. They are potentially very costly, and they are more than imminent. They are upon us in the shape of burgeoning deficits and a radically reflationary policy stance. Owning gold, you are insuring not against what may be but against what already is.

When George Bush, on a swing through the Pacific Northwest in August, said, "I am more concerned about somebody finding a job than I am about a number on paper," he was talking about the federal budget deficit,

now closing in on \$500 billion. And when, at a Labor Day speech in Ohio, the president declared, "We have a responsibility that when somebody hurts, government has got to move," he was talking about the value of the dollar, which, against the renminbi, the administration judges too high. As for the Fed's contribution to fashionable thought, on May 6, the Federal Open Market Committee for the first time expressed concern about the inflation rate falling too low.

The price of fire insurance would be out of reach if the homeowner started shopping for it after his house was billowing smoke. Yet, in my opinion, the price of monetary insurance is still reasonable in view of the risks posed to the purchasing power of the dollar by the dollar's own stewards. In one sense, gold is a hedge against what could go wrong. But it is also, nowadays, a hedge against what could go right, as U.S. policy makers use the word "right."

In the language of the electrical transmission system, gold is off-grid, independent of the global power system of banks and central banks. The Krugerrands in my safe deposit box are my asset and nobody's liability. By the way, it's a telling comment on the unevolved state of gold investment that, pending the advent of the World Gold Council's exchange-traded fund, the metal is so hard to buy. The quarter-century equity bull market, 1975-2000, led to the development of a thriving mutual fund industry. Similarly, the 20-odd-year gold bear market brought forth an elaborate gold-selling industry (gold mining companies borrowed metal they hadn't produced, sold it forward and invested the proceeds). For me, the purchase of a few thousand dollars' worth of

Krugerrands entails a trip to the coin dealer and a ride home on the subway. Then there's a second trip to the bank where, with luck, Rosemary, the nice lady who watches over the safe deposit boxes, won't be on break. It must be like buying stocks in 1947.

You must be wondering where the price of gold is going. The sophisticated analyst is not at a loss for an answer. We start with a venerable rule of thumb I will ever associate with the late, redoubtable Harry Bingham, who for years worked for the Van Eck group of funds. Gold's principal monetary characteristic is the long-term stability of its purchasing power, Harry would say. And as an example, he would posit that an ounce of gold has tended to command the purchasing power to buy one good-quality man's suit. Research shows that at Brooks Brothers this fall, prices start at \$598. Ergo, on this count, gold may be judged "market outperform."

The analyst next turns to interest rates. Down through time, money has competed with credit. In most phases of the cycle, credit has the edge, as money pays no interest. The owner of gold thus forgoes a stream of income and all the wonders of compounding. The elder J.P. Morgan counseled his son never to sell America short or he would surely go broke. He might have added, just as emphatically, never to sell short the compound interest table, either. Late in the 1990s, when the stock of Alan Greenspan was quoted at an exorbitant premium to the chairman's personal book value, and when interest rates were much higher than they are today, the opportunity cost of holding gold was judged prohibitive. Now that yields have plunged and the chairman's stock is off its highs (though still at an outsized premium to net worth), the opportunity cost of holding gold has plunged. If we are talking about money-market rates, the opportunity cost is essentially nothing. William V. Sullivan Jr., ace money-market economist at Morgan Stanley, notes that some \$6 trillion is invested at real interest rates either a little higher, or a little lower, than zero. That is in the U.S. Add in Japan, and the equivalent of many more trillions of dollars is lying fallow. For perspective, and to stoke delusions of grandeur among Newmont owners, the market cap of all the gold in existence is probably less than \$1.5 trillion.

The analyst, finally, will attempt to answer the question: What is the cost of not owning gold? To frame an answer requires some brainstorming. One must ask, What are the chances of a monetary accident? I was about to say monetary "failure," but the risk to the holder of dollars is not that the Federal Reserve will fail to achieve a slightly higher inflation rate or that the Treasury will fail to achieve a selectively lower dollar exchange rate. The risk to the holder of dollars is that the policy makers will succeed beyond their wildest dreams. Similar risks confront the holders of Japanese yen and even of Chinese renminbi, a currency I believe is destined to appreciate against the dollar. Gold is the hedge against the "success" of currency-manipulating and deflation-fighting monetary institutions everywhere.

You will be no richer for knowing that I am bullish on gold. I have been bullish at long, unprofitable intervals during the gold bear market that began before the birth of Britney Spears. I wake up every morning in the belief that the international monetary system is one day closer to breakdown. I am certain that posterity will look back at this episode in monetary history with a mixture of mirth and amazement.

It would be unnecessary to observe that these are not the views of the investment mainstream. Gold has its enemies as well as its friends, an odd thing considering its enemies' principal knock. If gold is an atavism, as they say, why do they hate it? Do they despise their useless appendixes?

I have just reread portions of Martin Mayer's excellent study, "The Fed" (The Free Press, 2001). In it, Mayer chronicles the evolution of our central bank, not neglecting the episodes of market intervention that have come to characterize the Greenspan watch. The book leads off with a dramatic account of the surprise, 25-basis-point cut in the federal funds rate implemented on Oct. 15, 1998, to mitigate the fallout from the explosion of Long-Term Capital Management. You may remember that that October 15 was an options-expiration day, and that the Fed pulled those 25 basis points out of its hat four minutes after the bond futures had settled and 56 minutes before the New York Stock Exchange closing bell would ring.

In that speculatively charged interval, Mayer relates, the nation's stock market capitalization leapt by a cool \$1 trillion. Well do I remember the day. With this "coup de théâtre," as Mayer puts it, the Fed shattered the morale of the remnant of bears who were still playing the stock market for a well-deserved fall. When the speculative peak finally came, in March 2000, the Dow was 42% higher and the Nasdaq Composite 212% higher than on the day Alan Greenspan elected to save the free market from itself.

Greenspan and gold go way back together. I expect most of you know about the 1966 essay of his that lavished praise on the classical gold standard (Mayer calls this work a "truly nutty screed"). Now, in a sense, Greenspan is the anti-gold standard. If the gold standard was the rule of law applied to monetary affairs, the present-day setup is the rule of discretion. As long as discretion seemed to deliver the goods, the gold price languished. As discretion has faltered, the gold price has rallied.

Discretion is no match for the arithmetic of the deteriorating United States external financial position. You know this country is privileged to consume more of the world's goods than it produces and to finance the deficit with dollars. International finance can be a difficult subject, but there is nothing abstract in the piles of empty shipping containers rising at America's deepwater ports or in the mounds of dollar-denominated securities accumulating in the monetary warehouses of foreign, mainly Asian, governments. The containers stack up in America because this country imports much more than it exports. The securities accumulate abroad because the supply of dollars is greater than the private demand for dollars. Holdings of Treasuries and federal agencies by foreign central banks and international institutions stand at \$953 billion, up 18.1% from a year ago. It takes no feat of curiosity to wonder when these foreign holders might choose to diversify out of dollars. They could add euros and yen, but the political sponsors of neither currency would welcome a higher exchange rate. Gold is, to me, an obvious portfolio diversifier. Among its other merits, there is no Government of Gold to protest the appreciation in its value.

There is a school of thought that sovereign governments hold down the gold price through covert intervention (by nefarious means separate and distinct from the overt sales by central banks). I have never believed it. I have never believed that, in this country, at least, ranking public officials care enough about gold to risk their careers by participating in a conspiracy to do it harm. For the same reason, I can't imagine them scheming to do it good, either.

I am an assiduous reader of the speeches of our high monetary officials, and there are no stronger props under the gold price. The Ph.D. economists on the staff of the Federal Reserve Board, however, I except from this generalization, because I have no idea what they're talking about. When talking to each other—the only people with whom they seem to talk shop—they can make Greenspan sound lucid. For example, Vincent Reinhart, director of the Division of Monetary Affairs, Board of Governors of the Federal Reserve System, recently had this to say: “[E]ven if the central bank and market participants share the same view as to the likely outcomes for the economy, they may differ as to how to characterize the risks associated with those outcomes. For example, the possibility of a significant adverse tail event that might trigger pernicious and nonlinear dynamics could require weighing that possibility more heavily in policy choice than an equally likely (or unlikely) outcome that had more predictable consequences for the economy.” Roger that.

Reinhart was speaking at the annual Federal Reserve camp-out in Jackson Hole, Wyo., where this year, as is customary, Alan Greenspan gave the keynote address. The chairman's talk, entitled “Monetary Policy Under Uncertainty,” was a defense of policy making by the seat of his own pants. Greenspan argued that central banks shouldn't be bound by rules because the world economy is too complex. They should, instead, be free to make it up as they go along. The chairman is pleased to call this technique “risk management.”

Greenspan is increasingly isolated in this point of view. The conservatives attack him, as they usually do. But so,

more respectfully, do the monetary academics. “Inflation targeting” is the hot concept in central banking. Bernanke, late of Princeton, was an academic exponent of it, and his former colleague, Princeton economist Michael Woodford, is out with a new book on the subject, “Interest & Prices” (Princeton University Press, 2003). In 785 pages of equation-packed text, Woodford tries to show that, in the absence of such familiar policy touchstones as a gold standard or a set of money-supply targets, central banks can get along by adhering to a set of explicit rules, the nature of which Reinhart might possibly understand. You may understand them, too, if the “intertemporal equilibrium modeling, taking full account of the endogeneity of private-sector expectations” is a phrase that means anything to you. “Price stability,” Woodford goes on, is a goal that the well-managed central bank can and should attain (proofs of the propositions advanced in the text are available in the 112 pages of mathematical appendices).

Greenspan, too, is a devout stabilizer, but he is unwilling to say just what prices he wants to hold still or how he would pin them down. Woodford is crystal clear—on that, at least. He wouldn't target so-called asset prices, e.g., stocks and real estate. He would aim, instead, for a measure of core inflation. Readers of *Grant's* may remember a discussion in these pages of the intellectual battle between the price stabilizers and their opponents during the 1920s and 1930s. The stabilizers, sounding a lot like modern Federal Reserve Board governors, shut their eyes to the risk that, by making a certain kind of price index walk a straight line, a central bank could inflate another kind of index—the Dow Jones Industrial Average, for instance. Woodford seems not to acknowledge this risk, or even the history of the controversy. Neither does Greenspan.

Maybe Woodford wasn't paying attention when the Fed lit a fuse under the stock market in 1998, and he very well may not be a student of the capital markets. Greenspan was there, and his description of that critical act of manip-

ulation is either disingenuous or oblivious. “At times,” the chairman intoned at Jackson Hole, “policy practitioners operating under a risk-management paradigm may be led to undertake actions intended to provide some insurance against the emergence of adverse outcomes. For example, following the Russian debt default in the fall of 1998, the Federal Open Market Committee eased policy despite our perception that the economy was expanding at a satisfactory pace and that, even without a policy initiative, was likely to continue to do so. We eased policy because we were concerned about the low-probability risk that the default might severely disrupt domestic and international financial markets, with outsized adverse feedback to the performance of the U.S. economy.”

I would describe the ensuing equity boom and bust as feedback of greater-than-outsized proportions. And I would characterize the refusal of the Greenspan Fed to acknowledge its complicity in this cyclical error as ominous for the future of monetary policy. In the pursuit of “risk management” and “price stability,” the Fed is likely to continue to ladle out the credit, with consequences that the chairman will not only not anticipate, but also not seem to notice even after they play out. The salient feature of the millennial economy is not, as claimed by Greenspan, its complexity, but rather the determination of the Federal Reserve to forestall bad things through money printing.

The rich old speculator Bernard M. Baruch forehandedly bought gold and gold shares after the 1929 Crash. Years later, a suspicious Treasury Secretary asked him why. Because, Baruch replied, he was “commencing to have doubts about the currency.” Many are beginning to doubt the strength of the dollar today, as well they might. Following Baruch's example, they should lay in some gold as a hedge. And they should follow the great Baruch in another particular as well. They should not forget to sell too soon.



Trading Historic U.S. Gold Coins for Profit

From time to time over the past 30 years, lucrative bull markets have developed in historic U.S. gold coins. If you believe in the cyclical nature of markets, as we do, then you might gain from a review of our *Index of Historic Gold Coins* chart toward the bottom of the page. Having hit its nadir in 2001, the *Index* shows signs of having put in a bottom and is now in the beginning stages of a bull market. For this reason, we have issued a buy recommendation for higher grade U.S.\$20 gold pieces. This buy recommendation applies to those wishing (willing) to add a speculative aspect to their gold holdings.

Some Pointers

Bull markets in historic gold coins can be associated with an advancing gold bullion market, or they can emerge independent of it. The last bull market in the early 1990s occurred independently. Even so, the upside was notable. At the same time, profits garnered from a bull move coincident with one in gold bullion have been spectacular -- often outstripping the gains in gold itself by a wide margin. Whether or not gold is in a secular bull market remains to be seen, but for the far-sighted investor, making his or her purchases before the general public gets wind of the opportunity, the gains can be impressive. Already, some USAGOLD clientele have garnered strong returns in this area. Based on past history, we believe that there could be substantially more upside left in this market.

For the most part, investors entering this area should have a three to five-year outlook, but shorter term profit opportunities should not be ruled out. Trading in historic U.S. coins is not for everyone. It is a more volatile area of the market with impressive swings both up and down. This area of gold ownership is definitely for the client comfortable with assuming a higher risk/reward profile.

Along these lines, this area of the gold market should not be considered a substitute for outright gold ownership, but as an extension of your base position. As most of you already know, we consider bullion gold (including the pre-1933 bullion relat-

ed coins) to be an essential portfolio hedge -- an insurance -- the purpose of which is to protect the asset structure against currency debasement. Trading historic U.S. gold coins for profit, on the other hand, is a speculative undertaking comparable to trading in stocks.

What To Buy

For the most part, we recommend that the beginning investor stick with the high volume \$20 gold piece market. The coins purchased should be graded by an independent service -- either the Numismatic Guaranty Corporation or the Professional Coin Grading Service. We also recommend purchasing coins graded Mint State 63 or higher due to their natural scarcity and general strong liquidity. An additional advantage to buying \$20 gold pieces is that the underlying gold value comprises a large percentage of the overall price, giving the investor a double-play profit opportunity -- one on the scarcity premium attached to the coin, and the other on gold value. There are principally two design types recommended-- the Liberty (minted 1845-1907) and the St. Gaudens (minted 1907-1933).



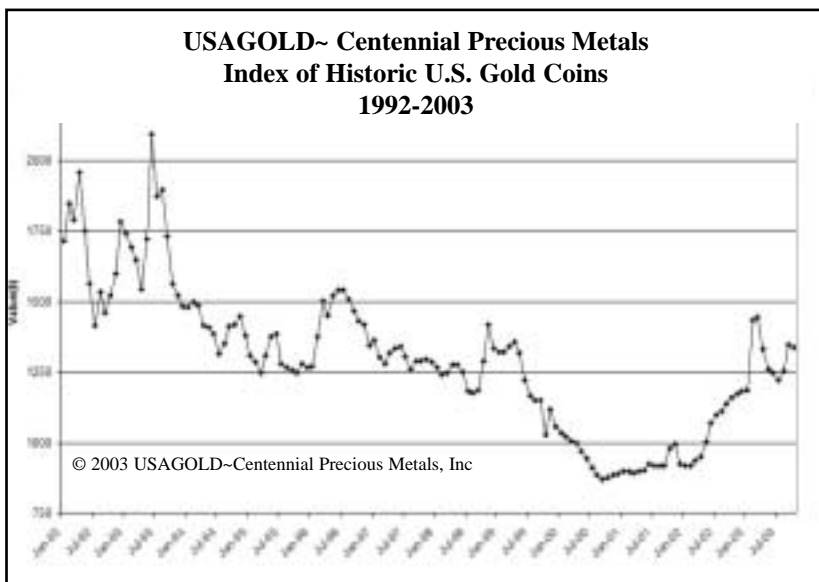
\$20 Liberty
Graded Mint State 64
Numismatic Guaranty Corporation



\$20 St. Gaudens
Graded Mint State 65
Professional Coin Grading Service

How To Buy

Those of you who have already purchased gold items from our firm will find the ordering procedure familiar. After determining which specific coins you wish to buy (usually in concert with your representative), we can lock in your order over the phone, or by e-mail, so that you capture the current market price. Payment is by our standard means, personal check or wire. Many clients opt to trade bullion or pre-1933 gold coins for their historic coin acquisition and we have a no-cost FedEx pick-up program to facilitate your exchange. For the details and to have your questions answered, we invite you to review the possibilities with your USAGOLD-Centennial Precious Metals representative.



Parting You From Your Money

by James Turk

[Editor's Note: Last month we inaugurated the **GOLD MYTHS AND REALITIES** section to our quarterly review, which in turn was a carry-over from the chapter under the same heading in the book, *The ABCs of Gold Investing: Protecting Your Wealth Through Private Gold Ownership*. The purpose of this column is to counter some of the blatant anti-gold propaganda bias in the mainstream media. This quarter we hand this section over to my good friend and colleague, James Turk. Although Mr. Turk's barbs are directed toward a recent gold article in *The Economist*, they find universal application in that much of the same misleading punditry can be found almost anywhere and a media outlet near you. I think you'll find Mr. Turk's responses both educational and personally satisfying. Herein, please find some very effective rejoinders we believe you will find useful at the upcoming holiday gatherings with family and friends.]

Back in January 1993 *The Economist* magazine published an article entitled "Fool's Gold". It was so full of inaccuracies and blatant anti-gold propaganda that I felt compelled to respond, and did so in Letter #120 ("No Fool's Gold", published March 1, 1993). There is no need to go into details, but I noted that *The Economist* article was "filled with such vitriolic disdain for gold that one can only wonder what the author was trying to prove by writing it." Was it to part you from your money? To keep you out of gold as it soared higher?

The Economist's article was, needless to say, bearish, while I was bullish and positioning subscribers for a big move in gold. You may recall that gold had a spectacular rally that began in March of that year.

I was therefore wondering whether history was about to repeat when I read a September 11th article entitled, "Rising gold price outshines its world economic influence", which appeared in the *Financial Times* – the owner and publisher of *The Economist*.

I think we can learn a lot from this

article, so I have reprinted it below in italics, interjected with my comments in brackets.

Gold has traditionally been regarded as a safe haven in times of global uncertainty. [Here's the predictable description of gold by anti-gold propagandists. Left unsaid is the reason people seek gold out in uncertain times. Namely, gold is sound money.] *The approach of today's second anniversary of the September 11 attacks on the US has triggered a rally in the gold price as fears of more terror attacks take hold. Bullion's price closed at a seven year high of \$381.05 in London earlier this week.* [Is the writer oblivious to the fact that gold has been rising since its July 1999 low, two years before 9/11? Or is he purposely disinforming us, in order to get us to subscribe to his newly concocted theory that gold goes up not because of financial and monetary uncertainty, but because of the fear of terrorism?]

Gold's role in the world economy has been in decline over the past two decades. [It is typical for anti-gold propagandists to start in 1980 when gold reached \$850. The thousands of years of prior history count for nothing in their view. Besides, gold's role has not been in a decline for two decades. It is as important today as it was back then. The only 'decline' is gold's rate of exchange to the dollar and the currency of other industrialized countries, but gold has actually been rising during this period against many currencies like the South African rand and countless South American currencies.] *The gold standard was abolished as a currency peg in 1968.* [It was 1971, but the important point is that even though currencies are no longer defined in terms of gold, gold remains the standard for measuring value. For example, crude oil costs no more today than it did in the 1950's, when measured in terms of gold.] *Its biggest user, the jewellery market, has remained static for years* [Wrong on two counts. First, by labeling demand from jewellery, he makes it appear that gold is not money. But more than 80% of the so-called jewellery is purchased for monetary reasons, not for adornment. Second, this demand has been growing for

two decades.] *and there has been no new industrial use for the metal in decades.* [True, but gold has essentially no industrial demand, and never did. It has always been demanded for its use as money.] *Central banks have also been reducing their holdings.* [Left unsaid is how rapidly they have been reducing their hoard in order to keep gold from rising. A rising gold price reflects badly on central bankers and their fiat currency, so they will do everything in their power to maintain the illusion that the dollar is worthy of being the world's reserve currency when in fact it is not. What we are seeing today is no different from the disharding seen in the 1960's and 70's.]

The financial importance of the metal has fallen with the growth of fixed interest, equities and derivative products. [Wrong, its importance has not declined. Instead, gold has simply become undervalued in the financial bubble central bankers have created.] *Annual gold production is worth about \$24bn (£15bn) a year, which is dwarfed by the money changing hands in the foreign exchange, bond and equity markets.* [Why does he look only at gold's annual production rather than annual trading volume? Is it a deliberate attempt to make gold look less important?] *But changes to the structure of the gold market are helping to fuel price rises.* [Curious, what changes is he referring to?]

Many view the gold price as a barometer of international confidence. [True, but he neglects to mention the important part. Confidence in what? The answer is confidence – or lack thereof – in the dollar and other fiat currencies, which explains the role of my Fear Index.] *It rises in times of war: it hit its highest level in more than six years in February just ahead of the war in Iraq and has held its ground in the run-up to the anniversary of the terror attacks.* [Gold responds to war only if the war has an impact on the money of the warring powers, in which case gold then rises in terms of the currency of the warring nation.]

Gold mining shares are likewise enjoying a revival. A benchmark gold

(Continued on next page. . .)

MYTHS AND REALITIES/TURK, cont. . . .

share indicator, the Gold Bugs index on the American Stock Exchange, hit its highest point since June 1996 this week. But even though gold shares are doing well, they have still been outperformed this year by the technology-laden Nasdaq index. [The HUI through September 10th was up 38.1%, while the Nasdaq was up 38.9%, hardly enough to make any difference. It speaks volumes though that he didn't make this comparison from March 2000.]

The gold price has risen 10 per cent since the start of August, outperforming other commodities [By associating gold with other commodities, we are to believe that gold trades like soybeans and pork bellies, but in reality, gold is money because it is produced for accumulation. All "other commodities" are produced for consumption.] such as oil, the price of which also reflects geopolitical fears.

Analysts are pointing to market fundamentals. One reason for gold's gain is the 41 per cent fall in the US dollar against the euro since mid-2001. The dollar's fall was counterbalanced by a similar rise in the gold price. [Gold has been rising against all the world's major currencies, but is doing best against the weakest of them, namely, the US dollar.] But the relationship between the dollar and gold has diverged over the past three months. Gold was about \$40 lower from its current level when the dollar hit its record low against the single currency in June. [In other words, gold's strength against other currencies is building, which is a very bullish observation about gold.]

Another reason is the buoying effect of large investment inflows into gold futures and options traded on the New York Mercantile Exchange, the world's biggest commodities futures exchange. Investors have bought gold derivatives that account for more than a quarter of the world's annual production. [Who is taking the other side of that trade? Is it intentional that he ignores the huge build up of gold derivatives by certain bullion banks that apparently are acting under the direction of central banks?]

Inflation may play a part in the current rise. [Now there's an understatement for you.] Alan Greenspan, the Federal Reserve chairman, signalled that the pruning of US central bank rates was near an

end when the Fed cut rates to 1 per cent on June 25. Since then metals prices have risen strongly. Platinum touched a fresh 23-year high this week. Silver hit a three-year peak on Tuesday, copper last week reached its highest point since March 2001 and nickel has not been higher since May 2000. [The point is that people are beginning to understand that the dollar is being rapidly – and probably irreversibly – trashed by a federal government determined to spend money like drunken sailors, and a compliant Fed that is more concerned about creating dollars to fund these resulting soaring federal deficits than maintaining any semblance of preserving the dollar's purchasing power.]

Central bank gold sales were until four years ago viewed as a big threat to the gold market. [They are best recognized for what they are – an attempt to keep a lid on gold.] When Gordon Brown, the British finance minister, announced the proposed sale of more than half of the Bank of England's 715-tonne holding in 1999, he provoked outcry among gold producing countries. The gold price fell to a 20-year low of \$252. [This event was a selling climax, which enabled all of us who understand gold to pick it up at bargain basement prices, thank you very much. But how many billions have the British people lost because of Mr. Brown's blunder?] Mr Brown's move led to the Central Bank Gold Agreement in September 1999 under which 15 European central banks agreed to conduct orderly sales of 400 tonnes a year for four years. This agreement expires in a year's time and a new pact is expected to be signed before the September 2004 deadline. [This comment is made to overstate the importance of central banks, to make it appear that they can continue to manage the gold price through dishoarding and other means. They of course can't, and whatever influence central banks have is waning as currencies become increasingly suspect. Gold is in a primary bull market, and no force on earth can stop a primary bull market.]

But one of the biggest influences on lifting the gold price is the move by gold producers to buy back long-term gold sale contracts, which is akin to miners buying gold. This is in response to the demands of institutional investors who are averse to the price-warping effect of gold hedging.

[And for good reason, and not just by institutions. We individual investors want to own mining companies with full exposure to gold's primary bull market.] Hedging typically takes the form of forward sales that enable the producer to lock in a price in the future. The effect is unlikely to be enough to bring back the golden days of the late 1970s when the price soared to \$800 an ounce. [The buy-backs by producers has little, if anything, to do with bringing back the 1970's. History is destined to repeat because governments and their lap-dog central bankers have so brutally damaged the fiat currencies they manage.]

"Producers have been the biggest single buyers of gold in the past 18 months, [Wrong. Investors have taken down 2500 tonnes of production during this period, while producers bought back only 1250 tonnes.] this cannot go on for ever," says Andy Smith, [It's impossible for any newspaper to print a bearish article about gold without some bearish comment from Andy Smith, an old acquaintance whose friendship I actually very much enjoy. Andy's only problems are that he graduated from the London School of Economics, and worse, that he still believes what he learned there is good economics.] an analyst at Mitsui Global Precious Metals. "Soon the price will have to adjust to reflect the underlying supply and customer demand." [Interesting he didn't say adjust upward or downward. That way he can claim victory regardless which way gold moves.]

When you see in a major financial publication any article about gold like this one, my advice is to simply ignore it. View it as their blatant attempt to part you from your money, which no doubt will occur if you believe and make decisions based upon their anti-gold propaganda.

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“When they saw the star,
they rejoiced exceedingly with great joy;
and going into the house
they saw the child and Mary his mother,
and they fell down and worshipped him.
Then, opening their treasures,
they offered him gifts,
gold, frankincense and myrrh.”

Fiat Money in France

Andrew Dickson White's famous 1912 essay carries important lessons for today's investor (and the would-be politician).

by Andrew Dickson White

[Editor's Note: How can something written over 90 years ago describing monetary events occurring almost 215 years ago in France carry relevance for investors worldwide today? The answer to that question was probably best answered by Andrew Dickson White himself in the now famous line appearing at the end of the work: "There is a lesson in all this which it behooves every thinking man to ponder." Indeed, as one ponders the breadth of this issue of *NEWS & VIEWS*, the message comes through loud and clear that the United States could very well be on a path similar to that of France in 1889 when the debasement of the currency left the bulk of the population penniless. In contrast, the section in this study which sketches the performance of the inflation-proof roughly one-fifth gold ounce Louis d'Or during this tumultuous period speaks volumes. The following is excerpted from the complete essay available at *The Gilded Opinion* page, www.usagold.com.]

All this vast chapter in financial folly is sometimes referred to as if it resulted from the direct action of men utterly unskilled in finance. This is a grave error. That wild schemers and dreamers took a leading part in setting the fiat money system going is true; that speculation and interested financiers made it worse is also true; but the men who had charge of French finance during the Reign of Terror and who made these experiments, which seem to us so monstrous, in order to rescue themselves and their country from the flood which was sweeping everything to financial ruin were universally recognized as among the most skillful and honest financiers in Europe. Cambon, especially, ranked then and ranks now as among the most expert in any period. The disastrous results of all his courage and ability in the attempt to stand against the deluge of paper money show how powerless are the most skillful masters of finance to stem the tide of fiat money calamity when once it is fairly under headway; and how useless are all enactments which they can devise against the underlying laws of nature.

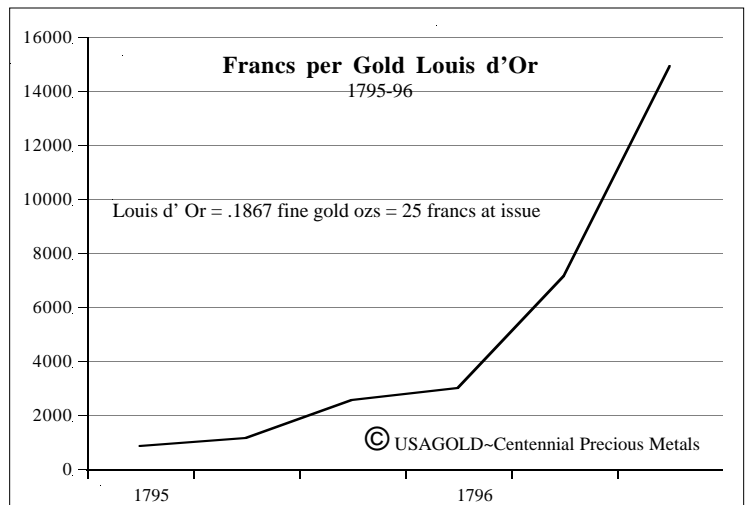
Month after month, year after year new issues went on. Meanwhile everything possible was done to keep up the value of paper. The city authorities of Metz took a solemn oath that the assignats should bear the same price whether in paper or specie, and whether in buying or selling, and various other official bodies throughout the nation followed this example. In obedience to those who believed with the market women of Paris, as stated in their famous petition, that "laws should be passed making paper money as good as gold," Couthon, in August, 1793, had proposed and carried a law punishing any person who should sell assignats at less than their nominal value with imprisonment for twenty years in chains, and later carried a law making investments in foreign countries by Frenchmen punishable with death.

But to the surprise of the great majority of the French people, the value of the assignats was found, after the momentary spasm of fear had passed, not to have been permanently increased by these measures: on the contrary, this "fiat" paper persisted in obeying the natural laws of finance and, as new issues increased, their value decreased. Nor did the most lavish aid of nature avail. The paper money of the nation seemed to possess a magic power to transmute prosperity into adversity and plenty into famine. The year 1794 was exceptionally fruitful: and yet with the autumn came scarcity of provisions and with the winter came distress. The reason is perfectly simple. The sequences in that

whole history are absolutely logical. First, the Assembly had inflated the currency and raised prices enormously. Next, it had been forced to establish an arbitrary maximum price for produce. But this price, large as it seemed,

soon fell below the real value of produce; many of the farmers, therefore, raised less produce or refrained from bringing what they had to market. But, as is usual in such cases, the trouble was ascribed to everything rather than the real cause, and the most severe measures were established in all parts of the country to force farmers to bring produce to market, millers to grind and shopkeepers to sell it. The issues of paper money continued. Toward the end of 1794 seven thousand millions in assignats were in circulation. By the end of May, 1795, the circulation was increased to ten thousand millions, at the end of July, to fourteen thousand millions; and the value of one hundred francs in paper fell steadily, first to four francs in gold, then to three, then to two and one-half. But, curiously enough, while this depreciation was rapidly going on, as at various other periods when depreciation was rapid, there came an apparent revival of business. The hopes of many were revived by the fact that in spite of the decline of paper there was an exceedingly brisk trade in all kinds of permanent property. Whatever articles of permanent value certain needy people were willing to sell certain cunning people were willing to buy and to pay good prices for in assignats. At this, hope revived for a time in certain quarters. But ere long it was discovered that this was one of the most distressing results of a natural law which is sure to come into play under such circumstances. It was simply a feverish activity

(Continued on next page. . .)



FIAT MONEY IN FRANCE, cont. . . .

caused by the intense desire of a large number of the shrewder class to convert their paper money into anything and everything which they could hold and hoard until the collapse which they foresaw should take place. This very activity in business simply indicated the disease. It was simply legal robbery of the more enthusiastic and trusting by the more cold-hearted and keen. It was, the "unloading" of the assignats upon the mass of the people.

Interesting is it to note in the midst of all this the steady action of another simple law in finance. Prisons, guillotines, enactments inflicting twenty years' imprisonment in chains upon persons twice convicted of buying or selling paper money at less than its nominal value, and death upon investors in foreign securities, were powerless. The National Convention, fighting a world in arms and with an armed revolt on its own soil, showed titanic power, but in its struggle to circumvent one simple law of nature its weakness was pitiable. The louis d'or stood in the market as a monitor, noting each day, with unerring fidelity, the decline in value of the assignat; a monitor not to be bribed, not to be scared. As well might the National Convention try to bribe

or scare away the polarity of the mariner's compass. *On August 1, 1795, this gold louis of 25 francs was worth in paper, 920 francs; on September 1st, 1,200 francs; on November 1st, 2,600 francs; on December 1st, 3,050 francs. In February, 1796, it was worth 7,200 francs or one franc in gold was worth 288 francs in paper.* Prices of all commodities went up nearly in proportion. The writings of this period give curious details. Thibaudeau, in his *Memoirs*, speaks of sugar as 500 francs a pound; soap, 230 francs; candles, 140 francs. Mercier, in his lifelike pictures of the French metropolis at that period, mentions 600 francs as carriage hire for a single drive, and 6,000 for an entire day. Examples from other sources are such as the following: a measure of flour advanced from two francs in 1790, to 225 francs in 1795; a pair of shoes, from five francs to 200; a hat, from 14 francs to 500; butter, to 560 francs a pound; a turkey, to 900 francs. Everything was enormously inflated in price except the wages of labor.

As manufacturers had closed, wages had fallen, until all that kept them up seemed to be the fact that so many laborers were drafted off into the army. From this state of things came grievous wrong and gross fraud. Men who had foreseen these results and had gone into debt were of course jubilant. He who in 1790 had borrowed 10,000 francs could pay his debts in 1796 for about 35 francs. Laws were made to meet these abuses. As far back as 1794 a plan was devised for publishing official "tables of depreciation" to be used in making equitable settlements of debts, but all such machinery proved futile. On the 18th of May, 1796, a young man complained to the National Convention that his elder brother, who had been acting as administrator of his deceased father's estate, had paid the heirs in assignats, and that he had received scarcely one three-hundredth part of the real value of his share.

To meet cases like this, a law was passed establishing a "scale of proportion." Taking as a standard the value of the assignat when there were two billions in circulation, this law declared that, in payment of debts, one-quarter should be added to the amount originally borrowed for every five hundred millions added to the circulation. In obedience to this law a man who borrowed two thousand francs

when there were two billions in circulation would have to pay his creditors twenty-five hundred francs when half a billion more were added to the currency, and over thirty-five thousand francs before the emissions of paper reached their final amount. This brought new evils, worse, if possible, than the old.

The question will naturally be asked, On whom did this vast depreciation mainly fall at last? When this currency had sunk to about one three-hundredth part of its nominal value and, after that, to nothing, in whose hands was the bulk of it? The answer is simple. I shall give it in the exact words of that thoughtful historian from whom I have already quoted:

"Before the end of the year 1795 the paper money was almost exclusively in the hands of the working classes, employees and men of small means, whose property was not large enough to invest in stores of goods or national lands.

Financiers and men of large means were shrewd enough to put as much of their property as possible into objects of permanent value. The working classes had no such foresight or skill or means. On them finally came the great crushing weight of the loss. After the first collapse came up the cries of the starving. Roads and bridges were neglected; many manufactures were given up in utter helplessness." To continue, in the words of the historian already cited: "None felt any confidence in the future in any respect; few dared to make a business investment for any length of time and it was accounted a folly to curtail the pleasures of the moment, to accumulate or save for so uncertain a future."

This system in finance was accompanied by a system in politics no less startling, and each system tended to aggravate the other. The wild radicals, having sent to the guillotine first all the Royalists and next all the leading Republicans they could entrap, the various factions began sending each other to the same destination: Hebertists, Dantonists, with various other factions and groups, and, finally, the Robespierrists, followed each other in rapid succession. After these declaimers and phrase-mongers had thus disappeared there came to power, in October, 1795, a new government,

(Continued on next page. . . .)



French Assignat Examples

FIAT MONEY IN FRANCE, cont. . . .

mainly a survival of the more scoundrelly, the Directory. It found the country utterly impoverished and its only resource at first was to print more paper and to issue even while wet from the press. These new issues were made at last by the two great committees, with or without warrant of law, and in greater sums than ever. Complaints were made that the array of engravers and printers at the mint could not meet the demand for assignats--that they could produce only from sixty to seventy millions per day and that the government was spending daily from eighty to ninety millions. Four thousand millions of francs were issued during one month, a little later three thousand millions, a little later four thousand millions, until there had been put forth over thirty-five thousand millions. The purchasing power of this paper having now become almost nothing, it was decreed, on the 22nd of December, 1795, that the whole amount issued should be limited to forty thousand millions, including all that had previously been put forth and that when this had been done the copper plates should be broken. Even in spite of this, additional issues were made amounting to about ten thousand millions. But on the 18th of February, 1796, at nine o'clock in the morning, in the presence of a great crowd, the machinery, plates and paper for printing assignats were brought to the Place Vendome and there, on the spot where the Napoleon Column now stands, these were solemnly broken and burned.

Shortly afterward a report by Camus was made to the Assembly that the entire amount of paper money issued in less than six years by the Revolutionary Government of France had been over forty-five thousand millions of francs--that over six thousand millions had been annulled and burned and that at the final catastrophe there were in circulation close upon forty thousand millions. It will be readily seen that it was fully time to put an end to the system, *for the gold "louis" of twenty-five francs in specie had, in February, 1796, as we have seen, become worth 7,200 francs, and, at the latest quotation of all, no less than 15,000 francs in paper money -- that is, one franc in gold was nominally worth 600 francs in paper.*

Such were the results of allowing dreamers, schemers, phrase-mongers, declaimers and strong men subservient to

these to control a government. . . .

[Editor's Note: I omit here a longish tract on social, political and economic conditions in order to reach ADW's conclusion.]

And, finally, as to the general development of the theory and practice which all this history records: my subject has been Fiat Money in France; How it came; What it brought; and How it ended.

It came by seeking a remedy for a comparatively small evil in an evil infinitely more dangerous. To cure a disease temporary in its character, a corrosive poison was administered, which ate out the vitals of French prosperity.

It progressed according to a law in social physics which we may call the "law of accelerating issue and depreciation." It was comparatively easy to refrain from the first issue; it was exceedingly difficult to refrain from the second; to refrain from the third and those following was practically impossible.

It brought, as we have seen, commerce and manufactures, the mercantile interest, the agricultural interest, to ruin. It brought on these the same destruction which would come to a Hollander opening the dykes of the sea to irrigate his garden in a dry summer.

It ended in the complete financial, moral and political prostration of France--a prostration from which only a Napoleon could raise it. But this history would be incomplete without a brief sequel, showing how that great genius profited by all his experience. When Bonaparte took the consulship the condition of fiscal affairs was appalling. The government was bankrupt; an immense debt was unpaid. The further collection of taxes seemed impossible; the assessments were in hopeless confusion. War was going on in the East, on the Rhine, and in Italy, and civil war, in La Vendee. All the armies had long been unpaid, and the largest loan that could for the moment be effected was for a sum hardly meeting the expenses of the government for a singleday. At the first cabinet council Bonaparte was asked what he intended to



At the beginning of the inflation, the Louis d'Or was worth 25 French francs. By the end, it was worth 15,000 francs.

do. He replied, "I will pay cash or pay nothing." From this time he conducted all his operations on this basis. He arranged the assessments, funded the debt, and made payments in cash; and from this time--during all the campaigns of Marengo, Austerlitz, Jena, Eylau, Friedland, down to the Peace of Tilsit in 1807--there was but one suspension of specie payment, and this only for a few days. When the first great European coalition was formed against the Empire, Napoleon was hard pressed financially, and it was proposed to resort to paper money; but he wrote to his minister, "While I live I will never resort to irredeemable paper." He never did, and France, under this determination, commanded all the gold she needed. When Waterloo came, with the invasion of the Allies, with war on her own soil, with a change of dynasty, and with heavy expenses for war and indemnities, France, on a specie basis, experienced no severe financial distress.

If we glance at the financial history of France during the Franco-Prussian War and the Communist struggle, in which a far more serious pressure was brought upon French finances than our own recent Civil War put upon American finance, and yet with no national stagnation or distress, but with a steady progress in prosperity, we shall see still more clearly the advantage of meeting a financial crisis in an honest and straightforward way, and by methods sanctioned by the world's most costly experience, rather than by yielding to dreamers, theorists, phrase-mongers, declaimers, schemers, speculators or to that sort of, "Reform" which is "the last refuge of a scoundrel." There is a lesson in all this which it behooves every thinking man to ponder.

Frequently Asked Questions

with Michael J. Kosares

The ABCs of Gold Investing: Protecting Your Wealth Through Private Gold Ownership

Question: What kind of gold should I buy?

MK. We probably get that question more than any other -- pretty much on a daily basis. The answer, however, is not as straightforward as you might think. What you buy depends upon your goals. We usually answer the "What should I buy?" question with a question of our own: "Why are you interested in buying gold?" If you are simply out to capitalize on price movement, then bullion coins will serve your purposes, though at the present profit-oriented investors might also be well-served by delving into higher-grade, semi-numismatic U.S. \$20 gold pieces. These appear to be in the beginning stages of a bull market. If you are interested in long-term asset preservation and you have additional concerns about capital and/or monetary controls -- a more complicated scenario -- then you might want to include the lower premium variety of pre-1933 European and American coins in the mix. But what I just gave you is a rough sketch. To develop a more refined strategy, we recommend spending time with your representative here at USAGOLD ~ Centennial Precious Metals. He or she can help you match the type of gold you buy with your goals. Our client representatives are seasoned professionals and can help you zero in quickly on your needs, and make sure you are not going in a direction contrary to your goals and needs.

Q. What percentage of my assets should I invest in gold?

A. Once again the answer is not cut and dried, but a general rule of thumb is 10% to 30%; and how high you go within that range depends upon your analysis of the current economic, financial and political situation. Obviously, the individual with a low level of concern about the current economic situation will tend toward the 10% level. Those with lagging confidence in the way things are going will gravitate to the higher end of the range. In recent months, we have had a number of investors go substantially over the 30% figure based on their own reading of the economy and the various investment alternatives available. With yields running just over 1% and stocks and bond still suspect with a large segment of the investing public, gold looks very good. Many, including even the die-hard stock investors, see gold as the most undervalued primary asset group in the standard portfolio mix. As a result, gold is getting a lot of attention. Over the past 12 months, the gold price has risen about 20%. That looks fairly substantive in a 1% to 2% world.

Q. Can you give us a profile of the typical gold investor?

A. Traditionally, wealthy and aristocratic European and Asian families have kept a strong percentage of their assets in gold as a protective factor. That same philosophy has caught hold in the United States over the years, particularly in the upper middle class, and there are a number of investors who add gold to their portfolio on an on-going basis. They do this not so much because they feel that the price is going to go up, but because they want to insure their portfolios from destruction related to currency debasement. Our clientele pretty much make up a cross section

of America, but the heavy buying is concentrated in the professions and among people who own their own businesses along with inherited wealth. In recent years, we have seen an increase in the number of baby boomers who own gold, as their asset structure grows and they feel the need to shelter their portfolios with gold ownership.

Q. You frequently mention gold as insurance. What do you mean by that?

A. Those of you who have read *The ABCs of Gold Investing: Protecting Your Wealth Through Private Gold Ownership* know that I believe that gold's baseline, essential quality is that it is the only primary asset that is not someone else's liability. The first chapter of that book ends with this: "No matter what happens in this country, with the dollar, with the stock and bond markets, the gold owner will find a friend in the yellow metal -- something to rely upon when the chips are down. In gold, investors will find a vehicle to protect their wealth. Gold is bedrock." This is precisely what people discovered in the Pacific Rim in 1997, in Argentina and Brazil in 1998, in Turkey in 2002, and in the MidEast now. When crunch time came in each of those situations, those who owned the metal understood what we mean when we say "gold is bedrock." Over the years, we haven't strayed very far from this fundamental philosophy. In everything we do -- this newsletter, our highly-regarded website and private conversations with our clientele -- we constantly emphasize this same fundamental precept of gold ownership. Needless to say, there are millions of people around the globe, including many Americans, who agree with us on gold's utility in this respect.

Q. Argentina, Brazil, the Pacific Rim, Turkey. Currency debasement in those countries is one thing, but do you really believe that a breakdown of that magnitude is possible in the United States?

A. In a certain sense, we have already experienced a slow-motion currency debasement in the United States, although not on the level of those countries mentioned. In fact, the dollar has been constantly and consistently debased since 1971. Now, it appears that the Bush administration's policy in concert with the Federal Reserve is to put that debasement on a faster track. When you hear the Bush administration criticize China and Japan for their currency policies, what they are really attempting to do is garner those countries' blessing in allowing debasement of the dollar. In the early 1970s, gold reacted violently to the upside once the debasement became commonly understood. It could react similarly in the first decade of the 21st century as many of the same policies that fueled gold then are being pushed again now. There could be a "make-up" rally in gold just as there was between 1972 and 1979. Once the dam breaks, I believe people will be surprised at the magnitude of the upside.

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Russia 5 Roubles .1245 ounces net fine gold MS65, MS66 Uncirculated grade Minted 1897-1911

Rationale

This is one of our best offerings in years. Russian 5 Roubles from the Imperial period of Russian history in Gem condition! Not only are these coins in an eye-catching state of preservation, we have gone to the trouble of having them graded by the Independent Coin Grading service to enhance their beauty, value and liquidity. Now, through the auspices of our Monthly Buyers' Group, you can add this coin to your own holdings -- a treasured piece of history at an attractive price. We are offering the coins in two grades: Mint State 65 and Mint State 66. The MS66s are spectacular. It couldn't have worked out better that we were able to secure these items for the 2003 holiday season.

Historical

Czar Nicholas II, pictured on the obverse of the coin, and his family suffered a sad and horrible fate at the hands of the Bolsheviks in 1917 when the whole family was brutally murdered. These coins reflect a happier time when the Romanovs ruled over a vast territory and became one of the most powerful and wealthy dynasties the world has ever known. Nicholas, misguided by his mystical wife and the mad monk, Rasputin, was an autocrat who crushed all hope of democratic reform--a circumstance which irrevocably alienated the Russian masses, contributed to his family's fate at the hands of the Bolsheviks, and led later to the even darker regimes of Vladimir Lenin and Josef Stalin.

OWN HISTORY NEAR BULLION PRICES !

No minimum/maximum.

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Limited availability.

First-come, first-served.

Privacy. Liquidity. Versatility. Scarcity.

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MS65 Uncirculated.....\$80

MS66 Uncirculated.....\$90

Prices include \$15 grading fee.

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Shipping waived on 30+ coins.

Quantity discounts on 100+ coins.

Please call for details.

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Sold as shown in the Independent Coin Grading
Service's hard plastic container.



Last Photo, 1917



Please Call 1-800-869-5115 to Reserve Your Imperial Russia 5 Roubles