

NEWS & VIEWS

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CLIENT ONLY LETTER

"It was the best of times, it was the worst of times." Charles Dickens

WELCOMING REMARKS

2002 was a bittersweet year for most investment portfolios. While the stock market continued its long decline, savings and bond yields cratered and the dollar went into a funk, gold did very well -- rising about 25%. A significant portion of what was lost on the dollar-based side of the portfolio was reclaimed in gold coin holdings assuming one was properly and adequately diversified. Though bittersweet as a whole, the year demonstrated unambiguously why we own gold. (See graphs bottom right.)

The World Gold Council offers this review of gold's bull move in 2002, and why it's likely to continue for 2003. Though geared to investment professionals, the rationale applies to individual investors as well:

"The performance of gold's price during 2002 largely re-reflects the fact that the professional investor has returned to the use of gold as a risk management tool. In the 1980s and for much of the 1990s, the economic, political and financial environments were, in the main, seen as benign and there was no assumed need in the 'professional sector' for the use of gold as a hedge. . .

The price started to improve in 1999 and 2000 on the back of strong physical regional demand and speculative short-covering. The former stabilised the price in mid-1999 just above \$250/ounce and then took it slowly higher; the latter developed because of stable gold prices and falling money market interest rates. The fact that this was happening in a period of relative political and financial calm, when there was no perceived need for substantial risk management, did bring gold to the attention of some money managers and other investors in the 'professional' arena. If there was no perceived need for the professional to be hedging against risk, then why was the gold price rising? Consequently, when global economic political and financial conditions did start to deteriorate, gold had already to some extent made its case for fresh attention. A solid fundamental backdrop was already in place.

Investment in the latter part of 2002 and at the start of 2003 has been driven by geo-political concerns but the underlying background is more complex, and reflects currency concerns, along with the desire to hedge against risks in the equity and bond markets and, notably in the case of Argentina and Japan, risks in the banking sector. Corporate governance problems also played a strong part during the first part of 2002, as a deepening mistrust of corporate reports and accounts augmented some investors' desire to hedge against equity exposure. Gold thus reasserted itself as an alternative asset class, enabling the professional investor to diversify his risk. With concerns also swirling in the markets about the destiny of the dollar, the euro and the yen, gold and the Swiss franc came into play as reserve currencies."

"[T]here's virtually no meaningful limit to what we could inject into the system were that necessary." -- Alan Greenspan

"[T]he U.S. government has a technology, called a printing press, that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. . . If we do fall into deflation, however, we can take comfort that the logic of the printing press example must assert itself, and sufficient injections of money will ultimately always reverse a deflation." --- Fed Governor, Ben Bernanke

Those two statements delivered within a few days of each other in November mark an important policy watershed -- an
(Continued on page two. . .)

SHORT & SWEET

Lord William Rees-Mogg, one of Britain's foremost financial journalists, believes that the time has come for gold. The man who accurately predicted the 1987 Crash and the collapse of the Soviet Union says that he foresees a growing role for gold for both individual investors and "troubled" governments. Says Rees Mogg: "The rise in the price of gold is more likely to continue than not. The probability in the next 12 months is that gold will continue to be a more favourable investment than stock markets, particularly Wall Street. Gold simply doesn't look particularly expensive by historic standards." Goldman Sachs created something of a stir on Wall Street recently with its prediction that the dollar would plummet against both the yen and euro in 2003. In a report to which no one in the firm would attach their name (for apparently good reasons), traditionally dollar-bullish Goldman said the euro would go to \$1.12 (it's trading at roughly \$1.04 as we go to press). The yen, they say, will have a less dramatic rise going to 115
(Continued on next page. . .)



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WELCOMING REMARKS, CONT. . . .

“economic continental divide” with all of market history prior flowing in one direction, and after flowing in another. The Fed (it came across loud and clear) was willing to print money if necessary to keep the economy from sliding further into the abyss -- a radical change from the anti-inflationary bias which Alan Greenspan, as Chairman of the Federal Reserve, has carefully cultivated over the past fifteen years.

To make certain that no one would misinterpret the direction the United States was headed, the White House quickly followed the Fed statements with the “resignations” of Secretary of the Treasury Paul O’Neil and White House economic advisor, Lawrence Lindsay. A new team was trotted out promising fiscal and monetary stimulus to cure what ails the American economy.

Within days the investment markets’ interpretation of the Fed/White House one-two punch was clear and unmistakable. Gold, which had been rising steadily all year, broke to the upside in a flurry of short-covering and international physical buying. The dollar, which had been grinding downward all year, plummeted.

President Richard Nixon devalued the dollar under similar economic circumstances in 1971 and put gold on the launching pad. History, it is said, does not always repeat, but it at least rhymes. If so, 2003 could turn out to be a very good year for gold.

SHORT & SWEET, CONT. . . .

per dollar from 120. “No doubt,” the report concluded, “someone will accuse of not being bullish enough on the euro in coming days.”. The graphs on page one tell the story of the dollar and gold in a nutshell. The big story in 2002 was the dollar’s fall from the world’s currency pedestal. U.S. investor optimism, according to the UBS index, has gone off a cliff. Pegged at 180 in January 2000, it has plummeted to 40 at present. Just as 2002 could be titled “The Year of Gold’s Return”, 2003 will be seen as “The Year of Gold’s Revenge.” Reduced mine hedging, favorable supply-demand fundamentals, international currency hedging, capital movements into gold associated with war, and physical purchasing world-wide will conspire to bring ultimate woe to the big bullion banks and mining concerns who are short the gold market. On the subject of mine hedging as reported in *The Australian Financial Review*: “A key factor helping push gold prices to five-year highs is that miners have stopped betting the price will fall, according to Deutsche Bank. While fears of a Middle East war have been blamed for gold's run to almost \$US350 an ounce, the change of thinking by miners is just as important but not as obvious. ‘Historically, at these prices, the producers would have been very active in the hedge market,’ Deutsche said. ‘*The belief that we are in a bull market has led to negative sentiment towards the hedged producers.* Very little new hedging is being put in place.’ That same AFR article cited the Chinese, the Philippine and Venezuelan central banks as gold buyers over the course of 2002. Along these lines, George Trefgarne, Economics Editor for the *London Telegraph*, points out: “During the long bear market, gold producers stopped opening new mines. Production is now falling, so there is a worldwide shortage. It takes two to three years to start a mine, so that

shortage is likely to continue for a while yet. One day gold will lose its shine again. But in the meantime, wise men will tuck some away.” Equally interesting in the 2003 gold schematic is the drop-off in gold leasing programs. In years past, this practice provided another key source of supply. In a speech published in the London Bullion Market Association journal, Jan Lamers of the Dutch central bank pointedly remarked that at current lease rates there is little incentive to lend out one’s gold reserves. He went on to say that this sentiment is generally prevalent among top central bankers. He put the Dutch central bank lending pool at 140 tonnes. *World News* reports: “Overnight, and without informing customers, China’s largest semi-privatised bank (Everbright Bank) had introduced a rule allowing no more than 10 per cent of deposits to be withdrawn in a month. Mr Long was enraged but not surprised. For months China has been rumoured to be on the brink of a financial crisis. The fact that some banks may now have run out of cash to pay depositors confirms some people’s worst fears.” **Ed. Note:** If that’s not a strong argument to reach your desired level of gold diversification *sooner rather than later*, I don’t know what is. Consider the following: You go to your bank to transfer money to USAGOLD/Centennial Precious Metals for a gold purchase only to be told that a freeze has been put on your bank account for all but 10% of your funds. (Continued on page four. . .)

WHAT’S GOING ON AT THE USAGOLD WEBSITE?

LIVE GOLD NEWS

(Links to top gold and financial news as it happens.)

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THE AFTERNOON GOLD REPORT

by Jon H. Warner

(The daily summation the experts read.)

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WORLD GOLD COUNCIL WEEKLY REPORT

(Rhona O’Connell’s gold news from London.)

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STORM WATCH

(James Puplava’s acclaimed analysis of gold and economy.)

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INSIDE CENTRAL BANKS

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THE COMPLETE “ANOTHER (THOUGHTS!)”

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* * * * *

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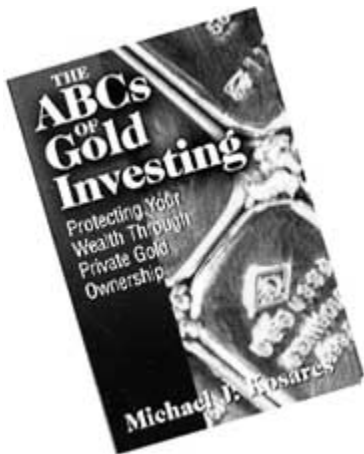
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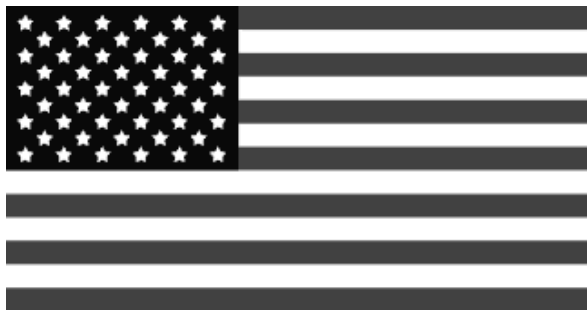
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“Was \$350 a breakout? The answer is no. Really, \$330 was the breakout. We have a near-term target of \$375, but that's not the high; I think the high this year will be \$510, so we've only just begun this bull market in gold.”

David Ing, Maisson Placements

WHAT YOU SHOULD DO RECOMMENDATIONS FOR THE SAFE-HAVEN GOLD INVESTOR

Clients!! Please review carefully. Recos change with each issue.

GENERAL: Gold should be used as a foundational element in the investment portfolio. It is the only primary asset which is not someone else's liability and, as such, offers the investor a degree of safety unmatched by any paper investment. Gold is the ideal diversification from stocks and bonds. Your overall investment portfolio should be diversified from 10% to 30% in gold with the degree of diversification contingent on your particular level of concern about the economy, financial matters, the political situation, etc. There is no substitute for hard metal ownership. Gold stocks, futures contracts, gold leverage schemes, exotic rare coins, jewelry and art pieces are NOT SUBSTITUTES for true gold ownership. To the contrary, these much-publicized “alternatives to gold” in fact undermine the fundamental purposes why most investors enter the gold market in the first place. Do not be deterred from your mission to own the real thing.

BEGINNERS: As a beginner, you should strive to obtain as much gold as you can for your money, while keeping in mind your primary goal of adding a safe haven. You will have to decide which items you should buy. Begin by assessing the *level of concern* which led you to gold. This will help you determine *where* you fall in the 10% to 30% diversification spectrum. Also, carefully assess *why* you are buying gold. These considerations will figure prominently in *how best* to design your portfolio. There are essentially two ways to go:

1. bullion and/or bullion coins
2. pre-1933 U.S. and European gold coins.

Bullion and bullion coins should be purchased by those who want all the protections of gold and are unconcerned about political intrusions into the gold market. Pre-1933 gold coins should be purchased by those concerned with privacy issues, including the possibility of capital controls (with gold confiscation being the most extreme potentiality). Both bullion items and pre-1933 coins sell near the gold value, with the pre-1933 trading at modestly higher premiums over gold content due to their historical value. Those concerned about political intrusion but rate it a low probability usually split their portfolio between the two items. Splitting the portfolio lowers the overall premium paid and is a prudent compromise for the cost-conscious investor. If you would like to learn more about designing your gold portfolio, please request our monograph, **HOW YOU CAN SURVIVE A POTENTIAL GOLD CONFISCATION.**

INTERMEDIATE & ADVANCED: The recent stock market scandals, threats, and rumors of war and subsequent sell-offs in dollar-based equities worldwide has spurred renewed interest in gold in the US, Europe, and Japan. We consistently hear reports of extraordinary demand coming from the Mid-East. Competition for existing supplies could push the price of gold to higher levels without warning. Because the euro is moving up against the dollar, premiums on gold coins could begin rising for both U.S. and European items from the pre-1933 era. Most of the pre-1933 gold we broker originates at banks and gold brokerages in Europe. Euro/dollar exchange rate differentials could force exporters to recover part of their currency risk by raising premiums. Those wishing to add to their pre-1933 holdings should do so now while premiums remain in acceptable ranges. Likewise, those with privacy concerns who now own bullion coins might consider an exchange for the lowest premium pre-1933 European items while they trade at the lower end of the premium cycle. At the current 15% to 17% premium over gold, we especially like the underpriced British Sovereign. For the advanced investor, we also like the US \$20 gold pieces. We recommend your quick action before premiums rise.

BULLION BARGAIN HUNTING: We have on occasion been able to locate old Austrian Coronas (.98 ozs) and Mexican 50 pesos (1.2 ounces) at bargain prices. We also have been able to get kilo gold bars (32.15 ounces) at very good prices. Please ask your representative about these items.

SPECIAL ADVISORY: We are beginning to see movement in the rare coin market (believe it or not). Though we do not recommend the exotic high-end rare coins because the market is too thin, we do believe that gold numismatic coins with lower premiums, such as the MS63-65 Liberty and St. Gaudens \$20 gold pieces, offer good value at this juncture. We also like the old Morgan silver dollars. In both instances, these should be bought by clients who already have a good foundation established in gold bullion and pre-1933 gold coins. These \$20 gold pieces are a speculative addition to the overall portfolio. They can be fun to accumulate and can be very profitable at times, but they should not be viewed as a replacement for monetary gold ownership. We have made very good money for our clients in \$20 gold pieces in recent months, as many of our clients can attest. Please call your representative for details.

NOTABLE & QUOTABLE

How Bin Laden Slipped Away

When Osama bin Laden was holed up in the caves of Tora Bora, the Northern Alliance suddenly downed arms and refused to go in for the kill. They demanded more payment from the US Army. In vain the Americans offered dollars and other paper currencies.

Rupees? Afghanis? Euros? No thanks, they snorted. Any old warlord can print money. Not until some nice gold had been flown up from Pakistan would the Northern Alliance advance. By that time, it was too late and bin Laden had slipped away.

Such behaviour illustrates a point made by Alan Greenspan, chairman of the US Federal Reserve. Asked by a congressional committee three years ago if America should copy Mr Brown and auction off the contents of Fort Knox, he said no. "We should hold our gold," he said. "Gold still represents the ultimate form of payment. Germany in 1944 could buy materials during the war only with gold. Fiat money [currency] in extremis is accepted by nobody. Gold is always accepted.

The London Telegraph/George Trefgarne, Economics Editor (12/02)

[ED. NOTE: But for a few ounces of gold . . .]

A Golden Ark

Why would you need a safety deposit box? As I wrote a few weeks back, when it comes to money, I tend to be a professional obsessive-compulsive. That compulsiveness drives me to protect my holdings like a lioness guards her young. And I'm glad for that, because, while geopolitical news gets increasingly grim, I'm sleeping like a baby these days.

My sleep aid comes in the form of a safety deposit box full of gold bars located inside one of Chicago's biggest banks. More than Melatonin, Nyquil or a cheap bottle of wine, gold relaxes me. It's my worrying, bankruptcy, default, depression, up-all-night, frugality, so-I-can-rest medicine. When I said I was building an ark, I meant it.

Do I love my family? Yes. Do I think relationships are important? Naturally. Is there more to life than making money? Of course. All that being said, I can promise you that in a crisis situation--a real crisis--it's cash that counts. And although most of us consider U.S. currency to be the best form of wealth, in a crisis situation, most of the world is more likely to accept gold than the greenback. Just ask any citizen of Argentina or Japan.

As we wrote a few months back, gold is the most widely quoted and internationally recognized form of wealth in the history of the world. If your objective is to save and protect your assets, it doesn't get any more old school than gold.

Jonathan Hoenig

Where is gold going from here?

Obviously, there's no definitive answer to this question, only guesses. But it's a free
(Continued on next page. . . .)

SHORT & SWEET, CONT.

If you think that Fed governor Ben Bernanke's statement came out of the clear blue, think again. Over the past 12 months the Federal Reserve has purchased nearly \$70 billion of the national debt -- hot money destined to burn an inflationary hole in the U.S. economy. While inflation burns the rate-of-return candle at one end, interest rates burn it at the other. More than one investor has placed his or her gold order with us lamenting that low rate of return. 90-day Treasuries are now pegged at 1.2%. . . . a low, low, low rate of return. And it looks like the Fed plans to push rates lower and inflation higher -- AS A MATTER OF POLICY!! National Debt Watch: As reported by *Reuters*: "The Congressional Budget Office analysis requested by Sen. George Voinovich of Ohio predicted that the government would have a \$866 billion deficit by 2012, not including Social Security funds, if government spending increases by the average rate of the last several years and tax cuts set to expire after 10 years were extended." [Ed. Note: Over the 12 month period ending 12/31/02, the federal government added almost \$460 billion to the national debt which now stands at over \$6.4 trillion]. Analyst/radio talk show commentator Jim Puplava: "[T]he supply of gold and silver on the exchanges isn't large enough to cover short



positions or handle any investment demand coming from the general public. Only the big boys have been buying and when they do, they cover their footprints. You can follow their footprints in chart patterns, but even they can be deceptive because a lot of trading in this market is done outside the market. I do believe, however, when the masses wake up to what has been done to their currency and what has become of the value of paper, there is going to be a giant scramble for the exit gates out of paper and a stampede through the narrow gate of precious metals. To deny this eventuality is to admit ignorance of monetary history. Very few give evidence of any paper currency that has been long lasting or enduring throughout the centuries."

. From a *World Net Daily* article on gold: "Joining the chorus of other institutions, Morgan Stanley predicted in July (in a report on its website) that the dollar could drop by 20 percent or more inside of a year. If, indeed, gold does tend to increase by about 2 percent for every 1 percent decline in the dollar, a \$450 to \$500 per ounce target would be entirely reasonable for 2003. At the very least, the prospect of a falling dollar and rising gold should merit your serious consideration. Allocating more gold to your portfolio not only can serve as an insurance policy against the unforeseen consequences of a weak dollar, but it can also position you for unexpected profits. After all, as Congressman Ron Paul put it, 'History and economic law are on the side of gold.'" From *Reuters*: "The people who

(Continued on next page. . . .)

NOTABLE & QUOTABLE, CONT. . . .

country and I'm allowed to guess. My un-specific guess is that gold is going higher than anyone at this time thinks possible. Gold rose to 850 back in 1980. Since then the Fed has created many trillions of intrinsically worthless fiat dollars.

My guess is that before the current bull market in gold is over, gold will be priced substantially above the 1980 peak price of 850. How much higher I don't know. At the recent New Orleans seminar I stated that as a guess I believed we'd see the price of the Dow and the price of gold cross. At what level? My guess was around 3000.

To sum up, it's my belief that the bear market in stocks is still in its early stages. I believe that the bull market in gold is also in its early stages.

Richard Russell/Dow Theory Letters/12/17/02

Gold Remembers Nothing, Venerates No One

Jason Goodwin, author of Greenback, a recently published book on the link between the dollar and US history, describes the relationship between gold and currencies thus: "Gold, the argument runs, doesn't stoop to flattery. Gold, being tight-lipped, offers no hostages to fortune. It remembers nothing, venerates no one. It trumpets no ideals, protests no loyalties, offers no jam today or tomorrow, doesn't much care if a war rumbles on for years or finishes in a triumphant blitzkrieg. Cold, old and remote, it doesn't even pay interest. The dimmer the days, the more irrational the conflict, the brighter it gleams." According to World Gold Council analyst, Jill Leyland, gold is often seen as a form of insurance. "You buy it before the event, not afterwards." Since "the event" has not transpired, this additional support for gold has lasted longer than anticipated. "If gold is a magnet for our wartime fears, it is only a brief outburst of irrationality in an irrational world, an atavistic sentiment, fleetingly indulged," writes Goodwin. "Gold will always be a part of the mystery of money. Just as it's good for our souls, once in a while, to keep warm around a log fire, or settle down with a good old-fashioned book, so gold can never disappear, because it's an eternal, disinterested witness to the tragicomedy of human history."

Business Day (01/03/03)

The Gold Market's Dirty Little Secret

MINEWEB: Was Goldcorp, as alleged by some, attempting to drive the gold price higher in the second quarter when it bought bullion at an average cost of \$323? Were you trying to tip it past \$330 with physical buying?

ROB McEWEN: I was curious to see what the breadth of market was. I had had some conversations with some large bullion dealers and at one point was just asking what the breadth of the market was, and I said if I was to enter into -- if the Bank of England was selling I thought it would be great fun to bid for their entire
(Continued on next page. . . .)

SHORT & SWEET, CONT. . . .

got whacked the most in 2002 were the blind optimists who bet against a three-year losing streak on Wall Street. After all, who would have thought stocks would be down for a third year? That's something that hasn't happened in more than half a century. 'All that bullishness based on the perceived odds of a two-year losing streak ending was just plain silliness,' says Jeff Walker, publisher of the Walker Market Letter. 'But the sad thing is plenty of people put their money into the market based on such silliness and the market was not kind to anyone making that mistake.'" A great many gold analysts are pointing to legalization of gold ownership in China as one of the past year's most important gold events. How did the introduction of gold go over in China? Here's an inkling from the China Internet Information Center: "Customers lined up to buy investment-grade gold bullion yesterday, when it went on sale for the first time in Shanghai since 1949 --making a mockery of retailers that



refused to sell gold bars earlier this week, claiming there was no demand for it due to high world prices. Responding to numerous phone calls from eager buyers, Shanghai Lao Feng Xiang Co. Ltd., the city's leading gold jewelry processor and retailer, decided to sell 15 kilograms of bullion on a trial basis. It's safe to say the trial was a success as almost all the gold bars were sold within two hours."

. While the bull market for gold proceeds steadily, something ominous for the U.S. dollar continues to build in the background--the European Union and its currency, the euro. Whether or not the euro is just another fiat currency is a side argument. The real discussion in the weeks and months ahead will be to what extent the euro will drain away the market for U.S. federal debt securities and what effect this will have on the value of the dollar. Much of the U.S. debt passed over by foreigners will be monetized by the Fed, as it now seems to be part of a deliberate policy by the U.S. authorities. The presence of the euro could exacerbate the problem because it provides a viable alternative to the dollar-based securities for international investors. In such a scenario, the question for most investors is not whether one should devote portfolio assets to gold, but *how much*. We continue to recommend between 10% to 30% gold diversification with the final figure taking into account the degree to which you are concerned about the developments highlighted in this
(Continued on next page. . . .)

Michael J. Kosares is this newsletter's author and editor. He is also the owner of USAGOLD ~ Centennial Precious Metals, Inc. and the author of the widely read primer on gold ownership, "The ABCs of Gold Investing: Protecting Your Wealth Through Private Gold Ownership. He has spent nearly 30 years in the gold industry.

NOTABLE & QUOTABLE, CONT. . . .

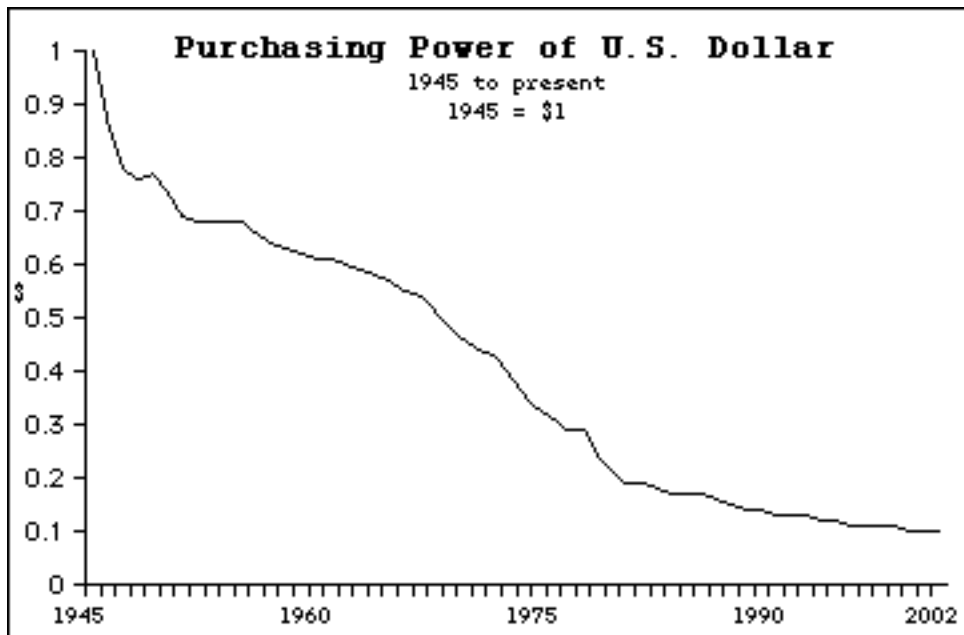
allotment -- and I said "how long would it take me to acquire 20 tonnes of gold?" 640,000 ounces. They said it would take 2 days to buy physical gold. They said no problem.

So 3 weeks later I went back to test that statement and I put in an order to buy [only] 40,000 ounces. They came back and said the market is moving a little faster than normal with gold coming up to 320. The normal spread in the market is 50c, they said today it's 75c and 40,000 ounces suddenly became a big order. They gave me the wider spread and I said I would take it. They came back and said they could do the 40,000 ounces, but if I wanted any more it would take two weeks to take physical.

There is something weird in this market when the assumption is the nominal liquidity is out there and broad, but when you go to physical, you have trouble getting it. So the real liquidity I think is much diminished. If we can, through our actions encourage other people to buy gold and other producers to withhold gold, maybe it would bring about a tightness that would be beneficial to the industry. I mean, 40,000 ounces! We hold over 5 tonnes today, and it's curious when you look at the piece of papers that we hold in our wallets and think that this is based on the good faith and credits of the various countries. We have more gold than 30 countries now, sitting in our vaults.

Mineweb.com/Tim Wood (11/11/02)

[**ED. NOTE:** The full interview of GoldCorp's Rob McEwen is available online at USAGOLD, The Gilded Opinion.]



issue of *News & Views*. We can help you determine both the amount and the structure of your gold portfolio. With that we'll bring this issue in for a landing. We would like to wish all of our clientele a Happy New Year and express our thanks for doing business with us over the past year. In that we do not accept advertising to protect the intellectual integrity of both this publication and our very important web site, you are the keystone to our continuance.Happy Trails, my friends, until we meet again.MK

IMPORTANT PROSPECTIVE INVESTOR NOTE

Those of you who have received this newsletter as part of your introductory packet can receive your follow-up information packet by request from your USAGOLD/Centennial Precious Metals' representative. It includes an important 8-page study: **"Is Now the Right Time for Gold?"**

Marie Ballard, Extension #106
George Cooper, Extension #102
Jonathan Kosares, Extension #110
Michael Kosares Extension #101

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