The Long Wave Analyst

Those who cannot remember the past are condemned to repeat it. Santayana

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The Long Wave Analyst is an investment strategy based upon historical analysis and interpretation of the "Kondratieff Cycle". Fax interpretation available between publications on significant market developments.

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Gold & Economic Freedom

"This is the shabby secret of the welfare statists' tirades against gold. Deficit spending is simply a scheme for the 'hidden' confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard. Alan Greenspan, 1966.

The National Post, November 2002

The Kondratieff Winter & the Case for Gold

"There can be no question that the US economy is at its most critical juncture since the Great Depression of the 1930's. With both the cause and pattern of the present downturn diametrically different from those of prior recessions, it should be clear that past experience cannot help in accessing what is to come." The Richebacher Letter, October 2002.

"Sharp rise in US job losses adds to gloom." "Fears grow over faltering global rebound as Germany and UK also report bleak economic news." Front Page headline: The Financial Times Jan11/12 2003 "US job losses increased sharply last month, adding to concerns about the weakening global economy recovery. The 101,000 decline in payrolls was the largest since February and surprised Wall Street..….US job losses last year reached 181,000 the worst since the end of the 1991 recession…..Losses in the manufacturing sector became more widespread. Makers of aircraft, cars, computers and films experienced some of the biggest percentage declines

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in employment along with restaurants, bars, retailers and banks." Ibid.. The Kondratieff winter is here, and it is getting colder.
The economy has only just begun its slide into the Long Wave depression, and already excessive debt is leading to significant bankruptcies. As the recession deepens, and it will, the pace of bankruptcies will increase markedly. It is akin to a landslide that starts from a single rock dislodged from the top of a steep hill. Once the Kondratieff winter debt landslide is set in motion there is nothing that will stop it until it has run its course.

The primary purpose of a Kondratieff winter is to purge debt from the economy. That process is just beginning with collapse of companies like Worldcom, Enron, Global Crossing, K Mart, Florsheim Shoes, Formica, United Airlines, Conseca, GenTek, Mcleod USA, Williams Communications, and others, whose names escape me as I write this. By the time this Long Wave winter reaches its conclusion, considerably more sizeable US corporations, which are household names, will undoubtedly fail due to excessive debt. As long as the economy continues to prosper, large debts are manageable. When the economy slows down, corporate revenues fall, and debt becomes an onerous burden. This is compounded by the scarcity of capital and rising interest rates, as banks tighten their lending practices. For example, even though the Federal Reserve has now cut the cost of borrowing to its member banks 12 times in the past 11 months, the cost of borrowing to the telecoms has approximately doubled. Ford Motor Company paid a higher rate of interest in its latest debt offering in December 2002 than it did six months before, in spite of the 300-point basis rate cut by the Federal Reserve over the same period.

During 2002, more than 180 publicly traded companies filed for Chapter 11 bankruptcy, which led to the destruction of $368 billion in assets; a record. These failures included six of the 12 largest corporate bankruptcies in US history. And it has only just begun. Martin Weiss counts an additional 2,453 publicly traded companies, which are vulnerable to bankruptcy. These bankruptcies are closely following the haemorrhaging of US corporate earnings. AOL lost almost $100 billion last year. This colossal number is far greater than the total market capitalization of all the publicly listed gold stocks, which is about $70 billion. Several other major US companies are spilling red ink. According to Martin Weiss, technology companies listed on the Nasdaq have posted losses in excess of $190 billion over the past 12 months. This was sufficient to wipe out all of their accumulated profits of the past six years. The liquidation of excessive debt and amounting tide of bankruptcies will continue, as the US economy falls into it's forth Kondratieff winter deflationary depression. There is perhaps as much as another $10 to $15 trillion of debt which must be erased from the economy before winter has run its course. This is a staggering amount and infers that the bleakest part of the Kondratieff winter is still far into the future.

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These bankruptcies are beginning to significantly impact US banks. Following the Kmart bankruptcy, J.P. Morgan Chase suffered a $117.8 million loss and Fleet Boston Financial, a $119.9 million loss. Between May and October 2002, J.P. Morgan's share price had fallen a whopping 60.5%, which effectively sliced $46 billion from the firm's market cap. Excessive debt always has a major negative impact on banks. The Japanese experience should serve as a stark reminder of that fact. "This much is certain, whenever any society accumulates debt beyond its ability to repay, it is the creditors who are robbed." Hoppe, Donald. The Donald J. Hoppe Analysis, November 1983. P.138

Consider the following: "What would one have to think of a major US corporation whose finance arm with debts of $US 170 Billion while the company itself stands with a balance sheet net worth of $US 7.8 Billion (down from $US 19 Billion as of the end of 2000) and whose recent earnings covered less than half of its total interest burden? That US company is FORD. Some people have finally taken a look at the Ford balance sheet. Ford's commercial paper lost $US 6 Billion in four days."

"How could a company with $US 170 Billion in debt paper outstanding, with current earnings insufficient to service even half of this debt, and with a net worth of $US 7.8 Billion still have ANY commercial paper in the market place? Ford does." The privateer http://www.the-privateer.com Late October 2002 edition. (reproduced with permission) Not only does Ford have this enormous amount of debt outstanding, but it also continues to add to this monstrous burden. The only thing that can save Ford from bankruptcy is a resonant rebound in the economy. Will that happen? Not likely, because most of the Kondratieff winter lies ahead of us. Anyway, car sales in the US are now stalling. "Shrinking car sales hint at consumer fatigue in the US…Unnerved by job cuts and random violence, shoppers are not tempted by interest free loans." So the Financial Times reported on August 23, 2002. Jeff Barry, the sales manager at the Jacobs' Twin car dealership, which sells Ford, Hyundai, Mazda and Honda brands, said that in August his dealerships delivered 130 new cars to customers, but that this month its likely to be only half that number, and he said, "People are getting laid off daily. There's a vast majority of people who are worried about committing themselves to something they can't fulfill. The whole damned world is in turmoil." The only means left to Ford, and many other companies too, is to borrow to pay the interest on its debt. Obviously, that cannot continue for very long. On October 23, 2002, Ford's debt rating was cut by S&P to two notches above junk with a negative outlook, which means that further downgrades are probable. October was the worst single month for the Three US automakers in four years. Car sales at Ford fell 36.6%. At GM, sales dropped 40.3% and even Daimler-Chrysler, which had not pushed the cut-rate financing deals was off 25.8%. According to Martin Weiss' Safe Money Report, "an auto sales bloodbath is in the making." December 2002.

The only thing that can save Ford from bankruptcy is a resonant rebound in the economy.

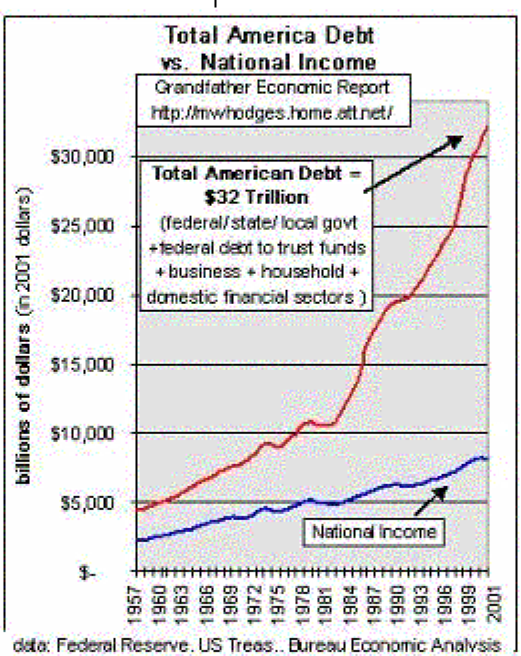
Employee Pension Plans Seriously Under-Funded

Besides this colossal debt burden facing the majority of US corporations, many also face a black hole with regard to their employee pension plan funding. This is a scandal that is only now beginning to attract attention Martin Weiss in (www.safemoneyreport.com) writes that there is a $78 Billion shortfall amongst just 234 listed companies in the S&P 500. This is the shortfall between the amount these companies have set aside and what is required for these companies to pay to their employees at retirement. For example, General Motors owes its pension fund $19.3 Billion, which is almost 50% of GM's total market capitalization, and Ford owes its pension fund $14.5 Billion. According to Weiss, the total amount of aggregate pension liabilities for 354 companies surveyed was $1.06 Trillion and the total amount of liabilities (funded and unfunded) for all of the pension plans in the US is $4.3 Trillion. This is really only the beginning of the problem, which will be compounded by larger and larger investment losses. For example, Martin Weiss anticipates that if the corporate pension funds of the S&P 500 companies lose just 5% this year, the shortfall in pension funding is going to be at least $109 Billion.

These pension plan funding shortfalls are hidden in the companies' balance sheets via legal GAAP gimmicks. This allows corporations to project annual returns on their pension funds and write of losses spread over a number of years against these projected gains. For example, a company projects an annual return of 10% on its pension fund assets of $100 Million ($10 Million). But, the company's investment losses on these assets are actually 5% or $5 Million. You might suppose that the company would show a loss of $5 Million on its profit and loss statement, but that is not a requirement. It can spread that loss over a number of years, assume 10, and write one tenth of the loss or $500,000 against the projected gain of $10 Million, there by showing a net gain of $9.5 million. Through this legal maneuvering the company can buy time in maintaining its pension fund at the required amount to satisfy its pension commitments and avoid deducting the loss from the bottom line. As investment losses deepen, so too will the hidden losses in employee pension plan funding. Eventually, however, these losses will have to be revealed. The losses will have to be recouped from corporate earnings, which are likely to be meager; or, the losses will compound losses. What this ultimately means is that many employee defined pension benefit plans are in jeopardy.

For the individual, the desperate employee pension plan shortfall is compounded by the enormous losses now being experienced in individual IRAs and in Canadian RRSPs. It was not that long ago when individual Americans and Canadians in their 50's and 60's could look forward to a comfortable retirement based upon: their investment holdings outside their retirement plans, the defined pension benefit that their employers guaranteed them on their retirement, and the growth of their individual retirement plans. Unfortunately, as the Kondratieff winter has unfolded each of these individual wealth and retirement mediums have been incurring substantial losses. Several stories attest to the pervasive fear now rampant among prospective retirees. Many cannot face opening their retirement plan statements, because of the losses that they know will be shown.

In the Financial Times of 26/27 October 2002, Tony Jackson headlines his Weekender article, " Perplexed by Corporate Calamities." He should not be. The calamities are evidence of the unfolding Kondratieff winter. He writes: "There is a long list of industries seduced by their share prices into overextending themselves, from telecommunications to insurance. The bull market also led many companies to make pension promises they could not keep. Yet what interests me is the host of things going wrong that seem unrelated to the financial markets." He then cites the wretched state of electricity companies. "In the US, according to Standard and Poor's, power generators have not been in such bad shape since the 1930's depression. (We are beginning to see a lot of comparisons with the 1930's, which is something very few writers mentioned, even as little as a year ago). In the UK, several electricity companies are in effect bankrupt. In France, the state-owned Electricite de France is likely to fall into a loss situation this year, mainly because of the wretched performance of its businesses in Argentina and Brazil."



"It's the Debt, Stupid"

When President Clinton was fighting his first presidential campaign against George Bush senior, he kept a piece of paper in his pocket on which he had written, "It's the economy, stupid." This was to serve as a constant reminder to him that he was fighting the election during a time of a mild recession in the US. In like manner, all my readers need to know is that, "It's the DEBT, stupid," which is the principal cause of the impending depression.

Debt Highlights: mwhodges.home.att.net

In the 1990's, total real debt increased $15.4 trillion. (= 52% of all current debt)

Last year it took $8.20 to produce $1 of income (GNP).

Last year household and business debt increased 3X faster than the economy, domestic financial sector debt soared nearly 4X and what the Federal government extracted from Trust Funds now stands at $2.6 trillion.

Foreign interests own about $8 trillion of US assets, including 13% of all stocks, 24% of all corporate debt, 43% of US government debt and 14% of US Agency Debt (i.e. Fannie Mae).

It's a Depression

A depression is far more severe than a recession. A depression takes a great deal more time to shed all the imbalances in the economy. "A depression involves the capital goods sector of the world economy and the illiquidity occurs or becomes apparent in the far more critical (and enormously larger) area of long term credit. A depression is worldwide because it is also a result of the illiquidity in the international debt system. Excessive inventories of consumer goods and illiquidity in short term business and consumer credit can generally be worked off in a relatively brief time, without excessive or prolonged distress. But over-investment in capital goods, which includes large buildings, factories and specialized technologies and entire transportation and communication systems, takes decades to develop, and excessive 'inventories' of capital goods quite obviously require a number of years to be absorbed or consolidated" The Donald J. Hoppe Analysis, October 1982. Thus, a Kondratieff winter is characterized by an overcapacity in basic industries on a worldwide basis, over-investment in the capital goods sector, severe illiquidity at every level of the financial system and a massive and intolerable debt burden. These conditions have always led to financial panic and economic depression. "Illiquidity in long term credit and international debt is the result of an entire generation's errors, excesses and follies and consequently takes a long time to correct." Hoppe, Donald, The Donald J. Hoppe Analysis, October 18, 1982.

Alan Greenspan, "The Greatest Central Banker of the Century."

What Mr. Greenspan says we are experiencing is simply a series of mild recessions. Because inventories have been declining, he thinks that is a sign that the economy is on the mend. If only it was that simple. How can it be any different this time when the imbalances are more acute than they have ever been in history?

> ***"Deficit spending is simply a scheme for the hidden confiscation of wealth."***
>
> ***Alan Greenspan, 1966***

"Greenspan declares U.S. recession over." "Economy already growing, says Fed chairman, buoyed by week's positive data," trumpeted Canada's Globe and Mail Report on Business on Friday, March 8, 2002. The Federal Reserve Chairman himself, appearing before the House Banking Committee the previous day, had said, "The recent evidence increasingly suggests that an economic expansion is underway." Really? The evidence suggests to the contrary. Very little of the excesses built into the economy throughout the Long Wave autumn have been exorcised, and the debt, far from being reduced, has continued to expand. "This recession has corrected nothing, because the Fed fought the powers of correction tooth and nail. Thus, the real corrections in the economy lie ahead." Richard Russell, www.dowtheoryletters.com

It is amazing to me that so many people who should know better continue to heap accolades upon Alan Greenspan. Senator Phil Gramm (R-Texas) recently called the

Federal Reserve Chairman, 'the greatest Central Banker of the Century'. If this kind of adulation were not so stupid it would be comical. It must create in the mindset of the Chairman that he is omnipotent when it comes to the economy. It is something akin to the English Stuart Kings, who were adamant about their belief in the 'divine right of kings'. Charles 1 was executed by Parliament after he had been defeated in the English Civil War and James II was ostracized from England, after the 'Bloodless Revolution'. If Alan Greenspan suffers the same fate of James II, perhaps Queen Elizabeth will welcome him to England, where she has conveyed on him an honourary knighthood in consideration of his outstanding efforts as the world's most important central banker. When this Kondratieff winter has reached its coldest and bleakest moment, Sir Alan Greenspan will be vilified by those who have borne the brunt of his grandiose fiat experiment. It has been an abysmal failure and one that will bring severe financial distress to many Americans and to millions of others around the world.

Upbeat Official Pronouncements

Now the President believes too, or at least he purports to believe, that everything is on the mend. "I am optimistic about our economy, and I should be. The fundamentals are strong. Interest rates are low. Monetary policy is sound," he declared to worried Americans on August 5, 2002. And in a moment of New Year's Eve cheer, the President said "our economy is strong, it's resilient; we've got to continue to make it strong and resilient." I guess that is why he had to unveil his latest stimulus package on January 7, 2003. Sounds like Herbert Hoover who, immediately following the stock market crash in October 1929, said, "the fundamental business of the country, that is production and distribution of commodities, is on a sound and prosperous basis."

Several other official pronouncements have downplayed the seriousness of the situation, whether by design or ignorance is unclear. What is clear however is that the Federal Reserve Board is hugely concerned. The rapid reduction in interest rates, 12 in total so far, and the gigantic increase in the money supply is evidence of panic in that quarter. Maybe, just maybe, Alan Greenspan truly believes that these monetary and fiscal efforts have saved the day, but the latest events such as the recent stock market woes, rising bankruptcies and declining consumer confidence must be sufficient to reestablish his concern that the economy is once again in a downtrend.

Federal Reserve Actions to Offset Deflation

The Federal Reserve has only two means at its disposal to re-ignite the economy. These are a reduction in interest rates and an increase the money supply. These methods have always worked in the past, that is, at least as far back as the last depression. But of course that's precisely where the economy is once again and that is why it is not working and why it will not work. The Federal Reserve, through these actions, creates the conditions whereby there is plenty of money available to borrow and the borrowing costs are cheap. But it is the banks that must consent to lend the money and it is consumers and corporations that must express a desire to borrow. Neither of these conditions prevails now. Banks are already substantially increasing their loan loss provisions as countries, corporations and consumers renege on their respective debt obligations and prospective borrowers have limited borrowing room remaining. "Considering, however, what has actually happened during the recovery to resource allocation, jobs, profits and general indebtedness, it is a compelling conclusion that the U.S. economy is in even worse shape today than a year ago when the recovery began." The Richebacher Letter, January 2003.

Contrary to popular belief, the Federal Reserve acted with similar vigour to that currently demonstrated by Alan Greenspan, to arrest the decline in the economy in the early 1930s, but to no avail. "If the Federal Reserve had an inflationist attitude during the boom, it was just as ready to cure the depression by inflating further. It stepped in immediately to expand credit and bolster shaky financial positions. In an act unprecedented in its history, the Federal Reserve moved in during the week of the crash-the final week of October-and in that brief period added almost $300 million to the reserves of the nations' banks." Rothbard, Murray, America's Great Depression, P.191. Not only did the Central Bank inject massive amounts of dollars in the banking system, but it also dramatically lowered interest rates in an effort to re-start the economy. The rediscount rate was lowered from 6% to 4.5% in the space of three weeks into the bottom of the stock market crash, which ended in mid-November 1929. By the end of 1930, the rate was lowered to just 2%. By mid-1931 the rate was down to only 1.5%. At the same time, as the depression deepened the Federal Reserve frantically tried to inject money into the ailing banking system, but to no avail as desperate savers rushed to convert their deposits into cash and gold to be held outside the bank. During 1931, "The Federal Reserve tried its best to continue its favorite nostrum of inflation-pumping $268 million of new controlled reserves into the banking system." Ibid, P.231. As we well know these aggressive fiscal and monetary actions on the part of the Federal Reserve at that time failed to arrest the Great Depression. Given the magnitude of the debt problem at the onset of this Kondratieff winter, it is unlikely that similar actions that have already been instigated by Alan Greenspan will prove successful in thwarting the deepening Kondratieff winter.

"Alas, regardless of their doom, the little victims play…"

What is so surprising to me is how sanguine people appear to be about the financial events that are now unfolding. Their memories of the good times have not been dulled by a growing financial catastrophe. They view every bankruptcy as a one of a kind and are incapable of linking one to another. They see three down years in the stock market as an almost sure thing that the year 2003 will be an up year. "American investors still have faith. Not even the dismal economy or last year's 24% plunge in the S&P 500 has shaken their staunch confidence in the US stock market…More than 60% believe the S&P will be higher at the end of 2003 than at the end of 2002, while 10% expect it to be around the same level." The F.T. Thursday January 9, 2003. After all, the last time that there were four down years in succession was so long ago. Let me see when was that? Of course that was in 1929,1930, 1931 and 1932, which of course just happened to forecast the greatest depression in US history, but they just cannot see the parallel. The latest Intelligence Investors poll (Late December 2002) shows bullish stock market advisors at 49.9% versus only 26.5% in the bearish camp. Think on this for a moment: the Japanese stock market recently touched lows not seen since 1983 and at that time the Dow Jones Industrial Averages were trading somewhere between 1100 and 1200 points.

It's the impending war with Iraq, of course, that is keeping the stock market from rising. "Our view is that stocks are being affected by war talk. If it weren't for all the hand-wringing, stocks would be off to the races." Tim Hayes, Global Strategist for Ned Davis Research as reported by Richard Russell www.dowtheoryletters.com December 27, 2002. (I emphatically endorse Mr. Russell's work to all my readers). Anyway, the war will be over almost as soon as it has started, or so they think, and then investors can turn their attention back to the business of making money in the stock market. But

"Alas, regardless of their doom, the little victims play;
No sense have they of ills to come,
Nor care beyond today.
Yet ah! Why should they know their fate,
Since sorrow never comes too late,
And happiness too swiftly flies?
Thought would destroy their Paradise.
No more: where ignorance is bliss,
'Tis folly to be wise."

Thomas Grey

the bear market has nothing to do with the war, it has everything to do with the astounding excesses that were built into the economy throughout the Kondratieff autumn and particularly at its cusp. This includes absurd valuations in stocks which were explained as they always have been by the mantra, 'this time it is different;' a huge mal-investment in all industries and in particular telecoms and the internet; an oversupply of all goods and services; unconscionable greed; a spate of ridiculous mergers and acquisitions that did nothing to enhance business but simply overburdened corporations with debt; stock buy backs which added more debt, but enhanced the value of executive options; and debt burdened consumers, beguiled by huge profits in the stock market and easy lending practices at the banks.

It is not that difficult to understand why most people have no inkling of what lies ahead. Times have been so good for so long. America has been on a tear since the end of the Second World War. She has been the most prosperous and the strongest military power in the world. Sure there have been recessions, but the last one of any consequence was between 1981 and 1982. Not many of us even remember that. Nor do many of us remember that the US military might was beaten in Viet Nam. But, all in all, things have been very good in America for more than 50 years, or at the dawn of the present Kondratieff cycle in 1949. Why would not the average American believe that nothing has changed and that the good times are still here, just interrupted by a temporary blip? Unfortunately, those good times were created through excessive debt. But the good times are over and America now faces a devastating deflationary depression, which is likely to create violent social unrest. The American people have been imbued with a feeling that they have a perpetual right to wealth and good times. Unfortunately, many will become destitute, leveled by an overwhelming debt burden.

Most Americans are still spending as if what has just been experienced is a mild hiccup in an otherwise booming economy, and they are adding to their debt as a means to support their excessive spending habits.

Current sentiment is reminiscent of that which prevailed in 1930. "Down to the last weeks of 1930, Americans could still plausibly assume that they were caught up in yet another of the routine business-cycle downswings that periodically afflicted their traditionally boom-and-bust economy." Kennedy, David. Freedom from Fear, the American People in the Depression and War, 1929-1945. Oxford University Press. P.65. Most Americans are still spending as if what has just been experienced is a mild hiccup in an otherwise booming economy and they are adding to their debt as a means to support their excessive spending habits. US corporations having reduced their inventories are starting to rebuild them in anticipation of renewed consumer purchases. The stock market is reflecting this hope of an economic recovery and is performing much has it did following the first bottom in November 1929. From the price lows, which were reached on November 13, 1929, stocks advanced into the spring of 1930. By April 1930 Steel was once again nudging \$200 and American Telephone and General Electric had almost reached their pre-panic highs… "Stock-market-minded businessmen hoped and half believed that this was but a temporary trouble: did not the graphs of security prices on the financial pages show an encouraging uptrend? Many corporations increased their dividend rates; the total amount of money paid out in dividends was only three percent less in 1930 than in 1929. New investment trusts were coming to birth, and the pattern which prevailed among them hardly suggested any widespread doubt in the resumption of old-style prosperity; for most of them were 'fixed trusts'….Tom, Dick and Harry were cheerfully buying participations in these curiously rigid trusts. Why shouldn't they? They knew enough economics to know that business ebbed and flowed in cycles; if you knew economics, you knew that the time to buy was after a panic, and that it was the leading corporations of the country that were likely to prosper most in the bull market of the 1930s." Allen, Frederick Lewis. The Lords of Creation. Harper Brothers, New York, 1935. P.400. But things were not back to normal and the economy was not about to improve. It was barely holding its own and was well below the levels of 1929.

In the Globe and Mail, Report on Business section, dated December 28, 2002, a front page headline reads 'Dundee Wealth to buy IPC for $120 million.' It transpires that the new company will manage about $23 billion in assets and have more than 1,300 financial advisors across Canada managing this money. Obviously, Dundee Management is bullish and is gearing up for the onset of a new bull market. However, the Kondratieff winter is a time of massive financial adjustment and the problems are far too immense to be solved in the normal course of events or corrected by the usual central bank strategies.

"Farewell house, and farewell home…"Richard Crashaw

Unfortunately, Sir Alan has simply created another bubble. The stock market bubble has burst, but he has induced the real estate bubble through his ability to print money. Because the real estate bubble has been pumped up by debt, it too must burst into the Kondratieff winter. Investors caught up in this latest bubble are completely oblivious to it, just as those that were duped by their apparent investment prowess at the peak of the stock market were oblivious to its ridiculous over-inflated characteristics. It is likely that many investors now buying into the real estate bubble, through new purchases, upgrading to more expensive homes or refinancing existing homes are the same as those that were caught in the loss of $8 trillion since the stock market peak. It is unfortunate that they fail to understand that real estate is now in a similar position to stocks at their peak. From this lofty level, home prices can only go down. Real estate cannot be immune to the overall health of the economy and the Kondratieff winter anticipates a deflationary depression at least on the scale of that experienced in the previous Kondratieff winter.

Not long ago the newspapers were full of stories about the booming Toronto real estate market. One such story was about a couple that had accumulated some savings and did not want to miss out on the market. They purchased a home after a cursory visit and the following day could not remember any details of the house that they had bought. Another story discussed a dozen real estate agents in their BMWs lined up outside a home anxious to make a commission by making the sale. And yet another story told of a real estate agent who put in an offer to purchase a home well above the asking price. The bank rejected the mortgage application on the grounds that the house could not be appraised at such a lofty value, but lent the agent the difference through a demand loan.

I recently returned from a short golfing holiday in Phoenix. My host has a property within a gated community just north of Scottsdale. There are 5 different spectacular golf courses situated in this large community. He told me that several investors had purchased large lots here for as much as $3 million at the stock market peak. Now, many of these lots have been put on the market for $2 million, but are not selling. He also told me that there were more than 400 expensive houses on the market in the community, but they were just not selling. I was also told that houses in Phoenix and Scottsdale priced above $300,000 were also not selling, whereas below that price there was still a brisk market.

In 1951, approximately 13.9% of household expenditures were allocated to housing costs. By 1995, that number had almost doubled to 26.8%. Today, according to Martin Weiss, "many homeowners spend more than 50% or even more of their take home pay on their mortgages" and mortgage delinquency rates are hitting record highs.

Meanwhile, homeowners have been taking the equity value out of their homes, beguiled by low mortgage rates. In 1940, average home equity was at 85%. By 2001, average equity had plunged to only 55%. Of course this is only an average. There are many US homeowners with little or no equity in their homes. When prices begin to fall, and they will, this paltry ownership will soon turn to a negative equity, which is going to create all kinds of problems if the owners cannot meet their mortgage payments. These payments will become crippling as unemployment grows. Or, when the housing market starts to incur losses similar to the stock market, limited home equity will become an excessive and frightening burden to the owners. It is somewhat like being margined to the hilt in the stock market at the peak in prices.

The bursting of the real estate bubble has begun.

Implications of the Coming Depression

What is the likely outcome of this coming depression? Using the last Kondratieff winter as a guide, here are some of the possibilities. Remember that the excesses at the peak of this Kondratieff autumn were far greater than they were at the peak of the last Kondratieff autumn. That includes debt, the stock market, the real estate market, greed and dishonesty. The payback is likely to be horrendous.

- The worst bear market in stocks since the 1929-1932 bear market (the previous Kondratieff winter bear market) and possibly worse even than that one. "We've entered a bear market that's so big, we haven't had anything like it since the 1700s, and that was a 64-year corrective process. " Robert Prechter and Adam Levy in Bloomberg News, 24th Dec. 2002. Repeating the 1929-1932 winter bear market experience could take the DJIA to 500.
- Huge losses in real estate. Heavily mortgaged homes and apartments, industrial complexes, shopping centers and office towers are likely to experience significant losses in value as they did in the last depression. "By the time this whole thing is over, you'll be able to buy your favorite neighborhood mansion from the bank at 10 cents on the dollar." Ibid. Many buildings will be left only partially built and boarded up. Donald Hoppe says that in Chicago, following the 1929 crash, not one new office tower was started until 1955.
- Massive unemployment. At the peak of the last depression more than 25% of the American workforce was unemployed. This will mean a significant increase in the number of homeless people and street beggars.
- Serious banking problems, including banking runs and failures. The huge debt problem is a banking problem. The Japanese experience is a good indication.
- Decimation of professional sports. The huge player and management salaries of the past few years cannot hold in a Kondratieff winter. Many professional sports teams will be bankrupted (The Ottawa Senators and Buffalo Sabres are just the beginning), and professional leagues will be considerably downsized. Tiger Woods will not be able to command $2 million appearance fees, purses for golf tournaments will be considerably smaller, and sponsors will not renew their agreements, resulting in fewer golf tournaments per year.
- Government Debt: In 1929, the US was the largest creditor nation and the federal debt was a paltry $16 billion. Now however the official debt is almost $6.4 trillion, which added to all to off-budget debt, which includes social security, probably transcends a Federal Government liability in excess of $10 trillion. State Governments are also starting to feel the pinch. The lead headline in The Arizona Star on January 2, 2003 was 'States Destitute'. The article went on to describe the desperate plight faced by many of the US states as revenues fall and expenses rise. This must ultimately mean higher taxes.

- Major civil unrest. People will not countenance poverty after the extreme feelings of wealth experienced at the end of the Kondratieff autumn. During the 1930's there was some civil unrest, especially on the part of some war veterans who built a shantytown in Washington, until they were routed by General McArthur. At that time, far fewer Americans were invested in the stock market than in 2000, personal debt was considerably less than it is now, and most Americans did not have official retirement plans. All this sets the stage for a much more angry citizen after the losses take their toll.
- Infringement on individual liberty. It is very likely that governments will escalate this process in an effort to curtail anti-government protests.
- Curtailment of municipal services, due to the cost. This includes public transportation, garbage collection, police and fire services, and maintenance of parks, streets and other public works.
- Secessionist movements on the part of some States and some Canadian Provinces, particularly in the West, as Federal dictates become too overbearing.
- Trade Wars. The desire to protect inefficient industries in the face of a deepening depression becomes of paramount political importance, just as it was in 1931 when President Hoover signed into law the Smoot-Hawley Act, which imposed a host of ruinous duties on imported foreign goods. President Bush has already started down the road with agricultural subsidies to US farmers, steel tariffs on foreign imported steel products, duties on Canadian softwood lumber and, currently under review by the United States, the actions of the Canadian Wheat Board in support of Canadian grain prices. Free Trade agreements notwithstanding, the US has a record of simply making up the rules to suit itself.

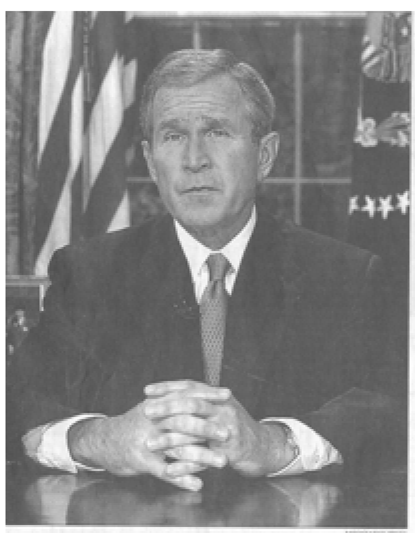
I have listed these possibilities to convey to you that something very different and far more drastic is likely to occur in our immediate future; something of which we have no experience, but something for which we must be prepared.

The Depression Presidents-Bush & Hoover

Calvin Coolidge, President Hoover's predecessor, decided that one term in office was enough, even though he had presided over the most prosperous period in American history.

Coolidge's presidency was witness to, at least up to that point in time, the greatest bull market in stocks in American history. That record was to be shattered in the subsequent Kondratieff autumn during the two-term presidency of Bill Clinton.

In his last State of the Union address to Congress on December 4th, 1929, the outgoing President reflected that, "No Congress of the United States ever assembled, on surveying the state of the Union, has met with a more pleasing prospect than that which appears at the present time. In the domestic field there is tranquility



ASSOCIATED PRESS

eorge W. Bush is confronting waning support for free trade.

ASSOCIATED PRESS

Herbert Hoover unhappily presided over a tidal wave of protectionism.

and contentment… and the highest record years of prosperity. In the foreign field there is peace, the goodwill that comes from mutual understanding….regard the present with satisfaction and anticipate the future with optimism."

On that record, why would the President not seek another term? Probably because his private thoughts differed from his public pronouncements. When his wife Grace was asked why her husband wanted to leave the White House amidst this period of great prosperity she replied, "Poppa says there's a depression coming". Sobel, Robert. The Great Bull Market, Wall Street in the 1920s. P.118.

In his acceptance speech as nominee for the Republican Party, Herbert Hoover said, "We in America today are nearer to the final triumph over poverty than ever before in the history of any land". He was shortly to be disabused of his lofty prediction. Following his inauguration, it took only six months for the stock market to peak and the Great Depression to start. This threw millions of Americans into the very poverty that Hoover had anticipated would be eradicated. Unlike his predecessor, Calvin Coolidge, Hoover's one term in office was not a matter of choice.

Like Herbert Hoover, George W. Bush assumed the presidency at the end of the Kondratieff autumn. At the time of President Bush's inauguration, the great bull market was almost at its peak. Affluence in America was pervasive. Money flowed, just as it had done in 1929, from every corner of the earth to participate in the great American miracle. Unfortunately, the Kondratieff winter has now overtaken President Bush. The affluence, built on a mirage of debt, and the flows of money from foreign sources are evaporating, just as they did after the stock market crash in 1929. President Bush is faced with a depression that will be at least as severe as that which faced Herbert Hoover--a depression that robbed the competent Hoover of a second presidential term. George W. Bush is likely to suffer the same fate. No mercy is shown for those in power at the onset of a Kondratieff winter.

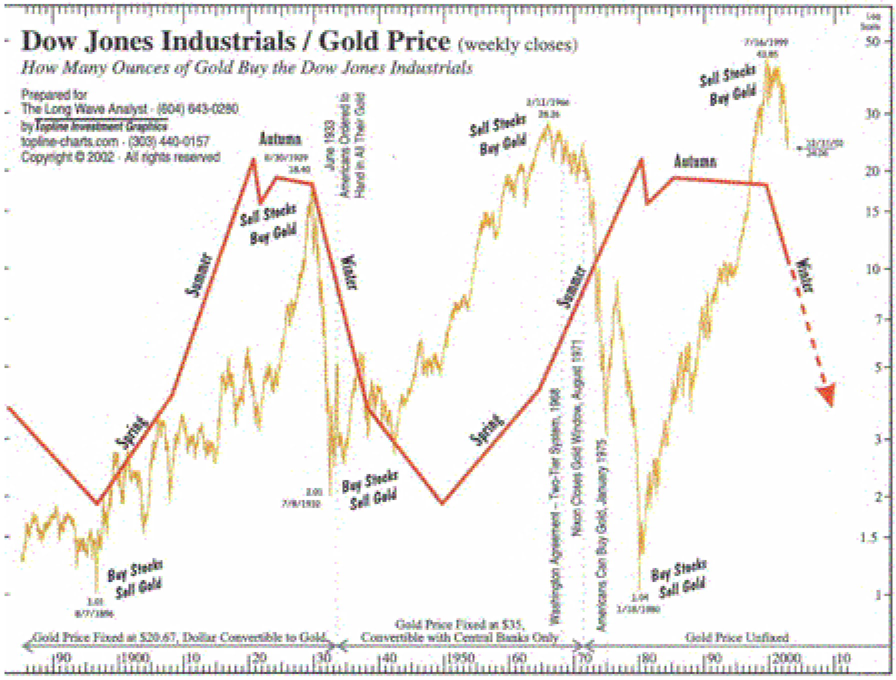
The Case For Gold

I want to leave my readers in no doubt that **gold** is the absolute investment of choice during the Kondratieff winter. At this time, there appears to be considerable doubt that this is so. This disbelief in gold is primarily due to the fact that throughout the Kondratieff autumn gold has been in a bear market. This bear market lasted from 1980 when gold reached a record high price of $850 per ounce (the end of the Kondratieff inflationary summer) to 2000, when gold dropped to $252 per ounce (the beginning of the Kondratieff winter). Every gold price rally during those 20 years was a bear market rally, and every gold stock rally was a short-lived phenomenon. Thus, for 20 years investors have been conditioned into believing that gold is a very poor investment medium and that they should put their money into stocks. That belief continues to this day even though stocks have been in a vicious bear market and gold has been in a blossoming bull market.

> ***Put forth thy hand, reach for the glorious gold.***
>
> ***Shakespeare***

When stocks are very high priced compared to gold, it's time to sell stocks and buy gold. This always occurs at the end of autumn.

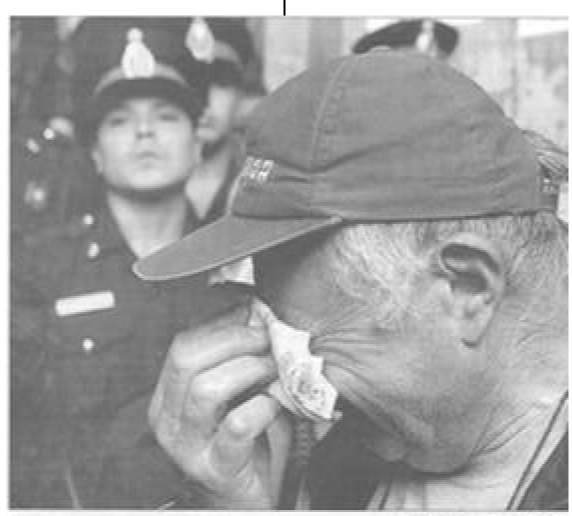
During the Kondratieff autumn, paper investments, like stocks, bonds and real estate, are always the investments of choice. Indeed, during this season these particular investment mediums reach outrageous prices by autumn's end. In such an investment environment there is absolutely no reason to own gold. But when the Kondratieff winter begins with the peak in stock prices (2000 and 1929), gold becomes the investment of choice, because the outlandish excesses in autumn lead to severe



financial distress and monetary chaos. Allow me to show you.

Distress in the banking system

As the depression got underway following the crash in stock prices in 1929, the US banking system all but collapsed. Bank failures spiraled into 1933. Shortly after he had assumed the presidency in March 1933, Roosevelt ordered the closing of all banks so that federal inspectors could determine which banks were solvent and which were not. Those that were deemed insolvent were forced to close and the depositors' money was lost. There was no deposit insurance at that time. The banking failures caused a run on even solvent banks, as depositors were fearful that their savings would be lost. Much of the money taken out of the banks was converted to gold.



An Argentine man, frustrated that his money is still frozen in the bank, wipes his tears in front of a row of policemen guarding the Supreme Court Justice building during the swearing in yesterday of the new Supreme Court judge in Buenos Aires.

Globe & Mail—December 31. 2002

The current crisis in the Japanese banking system is an example of how the excesses of the Kondratieff autumn play havoc on a country's banks. When the Japanese autumn turned to winter in early 2000, 8 of the 10 largest banks in the world were Japanese. Now only one Japanese bank carries that distinction. What are the Japanese people doing to protect themselves from their enormous banking problems? They are buying gold..

So size by itself is not a protection against bad loans. Large banks have large loans on the books. Many of these loans will turn bad as the Kondratieff winter gets underway. Do not think that American banks are in some way immune to the ravages of winter. The enormous debt amassed during the US autumn is frightening and its effect on US Banks is likely to be just as devastating as has been the Japanese experience. For many US banks the debt mountain is not the only issue that must be addressed in winter; huge derivative positions are also likely to add to banking woes. Americans, mindful of the ravages of winter, are increasingly turning to the security of gold.

Failure of Paper Money

History is replete with stories of government induced paper money systems, all of which have failed. The dollar system, which was imposed on the world at Bretton Woods in 1944 and which became a pure fiat system in August 1970, when President Nixon closed the 'gold window' is now in the process of failing.

In my essay entitled "The War on Gold' published in September 1999, I introduced my readers to three more recent paper money experiments, all of them failures. These failures all resulted in a return to the stability of gold as a backing for money. These three paper money experiments were the 1787-1796 French Assignat, the 1775-1792 Continental Dollar and the 1796-1810 fiat Pound Sterling. In 1810, the British Parliament appointed the Bullion Committee to ascertain why the price of gold had risen during the fourteen years when the pound had been de-coupled from gold. The Committee reported; "Inflation is an increase in the money supply. To restrict inflation you look to the note-issuing authority, whether it is a central bank or a government mint, and restrict note issue. The only effective restriction of note issue, in light of experience, is convertibility into specie such as gold and silver". Following its experiment with paper money, Great Britain returned to a gold backed-pound. Its leadership in that regard provided for world monetary and financial stability which endured for more than one hundred years; that is, to the outbreak of World War I in 1914.

Since the introduction of the fiat-based dollar system, there has never been a time when the world has experienced a stable currency environment. The dollar system has allowed the United States to take unfair advantage of other countries by constantly being indebted to them. This level of indebtedness is no longer sustainable. Foreigners must send back $2 billion per day to the United States just to sustain its unquenchable thirst for money. Last year the US, with 5% of the world's population, accounted for 70% of the world's debt. Every year the US consumes more than 75% of the capital that is available to the entire world. This voracious appetite for money is starving the rest of the world, which is unconsciously financing America's huge military requirements, which at $350 billion per annum is larger than the military budgets of the next twelve countries military expenditures combined. Clearly this cannot go on. As the US debt bubble continues to unwind during this Kondratieff winter, foreigners will no longer want to hold dollars and the US fiat currency regime will be over. What will replace the fiat dollar? It can only be gold, because all other currencies are only paper, too. "These paper-versus-gold battles have been fought before. The stark fact is that paper currency and debt money have never emerged triumphant in a straight, head-on battle with gold. Why not? Because gold has tangible worth and is limited in supply. Paper has negligible tangible worth and is unlimited in supply." Sutton, Anthony, The War on Gold, page 157-158.

Collapse of the Monetary System

In conjunction with the failure of the fiat dollar system, the world monetary system based on the dollar will collapse. The US is facing financial catastrophe brought about by excessive use of the printing press to manufacture a mountain of debt. The debt bubble is now in the initial stages of collapse. When the world understands the magnitude of the impending disaster, the abandonment of the US dollar will reach panic proportions. This will drive up US interest rates, which will add to the financial maelstrom. The worldwide abandonment of the dollar will in turn lead to panic buying in gold, which will, fulfill its traditional function as money of last resort.

In the previous Kondratieff winter, which started with the collapse of US stock prices in 1929, the world monetary system, based on gold, collapsed, following Great Britain's abandonment of gold in September 1931. The simple reason for the failure of the monetary system at that time was because it was too restrictive. At that time governments were unable to print excessive amounts of money to fight the growing economic calamity. It is for exactly the opposite reason that this Kondratieff winter will see the collapse of the international monetary system. A paper money system imposes no restrictions on the amount of money that can be produced. Unfortunately, the US has taken maximum advantage of that prerogative, and as a result has created an enormous debt bubble, which will now collapse into the Kondratieff winter. This collapse will lead to the disintegration of the world monetary system, based on the dollar.

Gold in Deflation

It is not my intention here to get into the interminable argument as to whether the US faces a period of inflation or deflation. I have made my point in most of my past issues that the Kondratieff winter is always the season of deflation because debt is deflationary. And there is far too much debt in the US. "I'm very much afraid that the US is going into a state of deflation. The bonds are telling me that. The economic statistics are telling me that. My insides are telling me that. The US has accumulated too much debt. The US has accumulated more debt than it can handle. The situation looks increasingly as though the debt mountain is about to fall over. If it does, we will have deflation" Richard's Remarks, January 8th 2003 @www.dowtheoryletters.com.

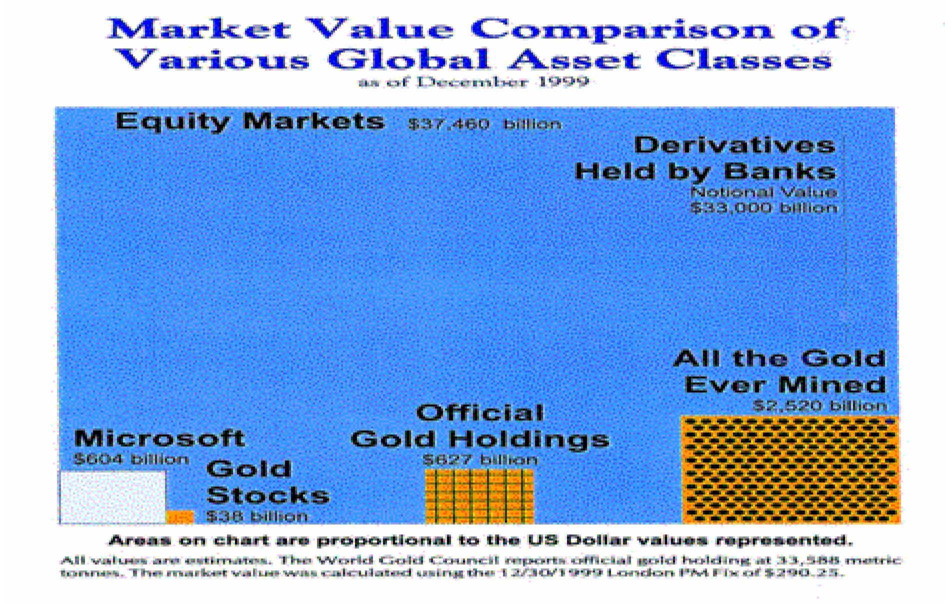
The Federal Reserve is gearing up to fight deflation and has put the dollar printing presses on maximum output in an effort to overcome it. Alan Greenspan admitted as much when he addressed the Economic Club of New York on December 19, 2002, "Moreover, a major objective of the recent heightened level of scrutiny is to ensure that any latent deflationary pressures are appropriately addressed well before they become a problem." The entire financial system is jeopardized by an overwhelming debt burden which collapses into deflation. This collapse causes a panic to own gold.

Scarcity of Gold

In the paragraphs above I have cited many reasons as to why gold becomes the money of choice during a Kondratieff winter. I have shown that the winter is a time of acute financial distress. I have suggested that in if the dollar system collapses, and there are compelling reasons to believe that it will, there will be a worldwide panic to buy gold. But gold and gold equities are very scarce and massive buying of the monetary metal will have a huge positive impact on price and will dramatically drive up the price of the few companies that mine gold and the few companies that explore for it.

The following chart shows the relative values of different asset classes at the peak of the world's stock markets at the end of 1999. The value of gold and gold equities were miniscule as compared to stocks. They still are.

Even now, there are more than a dozen US companies that have market capitalizations larger than the combined value of all the gold companies.



Climbing a Wall of Worry

According to Financial Research Corp, a Boston Based Research firm, US investors added $612 million to gold funds in 2002 after withdrawing $9 million in 2001. Gold funds had net assets of $3.2 billion at the end of November 2002, or 1% of the $2.8 trillion in stock funds. Even though gold funds have been the top fund performers in the US the past two years, the skepticism still remains. Vanguard Group has barred new investment in its gold fund, the second largest, since June 2002. Rebecca Cohen, a Vanguard spokesperson, said, "we were very afraid that investors were chasing performance." She alluded to the returns of gold funds during the mid 1990's as justification for Vanguard's policy, citing the fact that the average gold fund rose 9.5% in 1995 and 1996, only to drop 48% (post-Bre-X) in the next two years. Ms. Cohen said that Vanguard has no plans to re-open the fund. First Eagle SoGen Gold fund surged 105% in 2002, and the average gold fund appreciation was 64% in that year, but investors still maintain their fascination for investment in all other equities. "Since 1926, the S & P has returned 10.6% annually, 4.8% better than corporate bonds and double the return of government bonds. I see no reason to believe that that's going to be any different in the future…. Equities look extraordinarily attractive right now compared with bonds." Straszheim, Donald. President Staszheim Global Advisors, Los Angeles, July 22, 2002.

In spite of the major increases in price in gold and gold equities in 2001 and 2002 and the corresponding bear market in all other stocks, very few investors are convinced on either score. This is a contrarian's dream. As most of you will know, every bull market climbs a wall of worry, at least in the initial stages, and so it is with gold. In the Globe and Mail, Global Investor section, written by Rob Carrick dated Saturday, January 11, 2003, the main article headline reads "In Search Of This Year's Midas Touch." "Precious metals funds were golden in 2002, producing big returns in an otherwise lackluster year for mutual funds. The category might not shine so brightly in '03, but there could be treasures in other sectors." This is the same Rob Carrick, who in the same paper wrote on January 2, 2002, "What's the best financial move you can make for 2002? Get into stocks now. That's now, as in immediately. If you don't, you could miss out on as near to a surefire win as there is in the ever unpredictable world of investing." The current article interviews several mutual fund analysts, none of whom pick a gold fund as an investment of choice in 2003. "Still game to try precious metals funds? Then limit your exposure to 5% of your portfolio and get ready for an exceptionally volatile ride." Ibid

It is time to remind readers that it took 25 years (1954) for stocks to regain the price level that they had reached at the peak of the autumn bull market in September 1929. Investing for the long term at the beginning of a Kondratieff winter is financial suicide. But, the so-called experts still do not get it. No wonder the average investor is so confused. Gold stocks have outperformed all other equities the past two years but few advisors recognize that fact. Even if they do, they somehow expect that this out-performance will be reversed during 2003. It is a pity that they fail to understand that the seasons have changed. The Kondratieff winter is a time to seek the safety of gold, and not a time to be invested in paper assets, all of which are based on a mountain of debt.

Robert Prechter's Gold Price Target - $200

Some gold investors are concerned because Robert Prechter of Elliott Wave fame is calling for gold to fall to $200 per ounce. Normally, I would pay attention to anything that Mr. Prechter has to say, but his stance on gold is clearly incorrect. He argues that if the gold price had not been fixed during the last depression it would have fallen like the price of all commodities, including silver, on account of a reduced demand. This was of course true for all other commodities, but gold in the Depression took on its historical role as money of last resort. In the early 1930's, the demand for gold was enormous, based on distrust for paper money and a rising tide of bank failures. So large was the demand that Secretary Treasurer Lamont informed President Hoover, towards the end of his tenure, that the US would soon run out of all its gold. Roosevelt assumed the presidency in March 1933, and immediately ordered the confiscation of all gold that US citizens had amassed, so as to replenish the US Treasury.

Indeed, one might argue that had the price of gold not been fixed, its price, based on this huge demand, would have risen considerably. In his book Conquer the Crash, which I encourage you to read, Prechter writes, "I suspect that the reason that people bought gold then (early 1930's) is that the US government had fixed the price, at $20.67 per ounce. While everything else collapsed, gold was soaring in relative value, and its value gains were guaranteed. Who wouldn't buy it? If the government had fixed the price of any other substance, people would have invested in that instead. Today, gold, like silver in the 1930's is free to trade at market price, which means that it can go down during a dollar deflation." But what we are now witnessing is a dollar deflation, and the gold price far from falling is rising.

It is true that gold was soaring in relative value to all other commodities. If the government had fixed the price of, say, steel, would everyone have rushed to buy steel ingots? The gold price was fixed because it was money and convertible into paper dollars at the fixed price of $20.67. People and countries exchanged their paper dollars for gold coins, simply because gold was money. By the way, it still is money.

Though it is very early into this winter cycle, gold is already being accumulated by knowledgeable and concerned investors. Just as people like Bernard Baruch, began to purchase gold and gold mining shares following the 1929 stock market crash. The gold price is rising because demand is increasing all over the world. On January 9, 2003, Ron Insana reported on CNBC, "a gold dealer that he has known personally for a long, long time recently told him that throughout his entire career (the dealer's) he has never seen so many high net worth people buying so much gold." Reported in Richard Russell's Remarks on January 9, 2003.

As the international financial crisis unfolded following the Wall Street crash in October 1929, investors moved through a five-stage investment strategy in search of safety. Allow me to review these stages for you, courtesy of Donald Hoppe.

1. A flight from questionable securities into strong securities

The flight from the Nasdaq stocks to the comparative safety of the Dow stocks has already taken place. Eventually, of course, all US stocks will fall to price levels that most investors cannot fathom. Similar flights have taken place out of most foreign stock markets, the German Dax being a good example.

For a time, the beneficiary of this foreign decline in stocks, particularly in Europe and Japan, was US stocks, but that all came to an end in 2000. Investment money is now being attracted to some relatively obscure foreign stock markets and US Treasury bonds, which are perceived by many as the ultimate in quality.

2. Intense liquidation of inventories and commodities

The process of inventory liquidation has been vicious and has resulted in price deflation for many products. While some commodity prices have increased, others have declined. The prices for grains have increased, because of extreme shortages caused by drought conditions in the principal grain-growing regions of North America. Oil prices are high, because of the threat of war in Iraq and political uncertainty in Venezuela. Some metal prices remain relatively high, copper for example, because of demand in China. On the other hand lumber prices have collapsed in anticipation of major slowdown in homebuilding in the US.

Once the worldwide depression gets underway, the price of all commodities are likely to collapse, as they did during the Asian crisis in 1997. At that time oil prices dropped to $10 a barrel.

3. Liquidation of commercial real estate, houses and farms, both through foreclosures and sacrifice sales at a fraction of former values

This is well underway in Japan and other Asian countries, including Hong Kong, where home prices have dropped by more than 70% since their peak in 1997. It is in the early stages in North America. Farm and commercial real estate prices are already in decline. Rental rates are falling too, as vacancy rates increase throughout all the major US cities. For example, vacancy rates in Denver have increased from 14% to 22.3% in the year ending the 3rd quarter 2002. Meanwhile, home prices have peaked and prices for top-end homes are beginning to fall. Generally, real estate prices continue to appreciate, following a major stock market peak. In Japan prices continued higher two years after the peak in the Nikkei at the end of 1989. Thereafter, prices fell dramatically. The real estate market in the US cannot continue to defy the reality of the economy.

4. Flight from banks into cash and gold

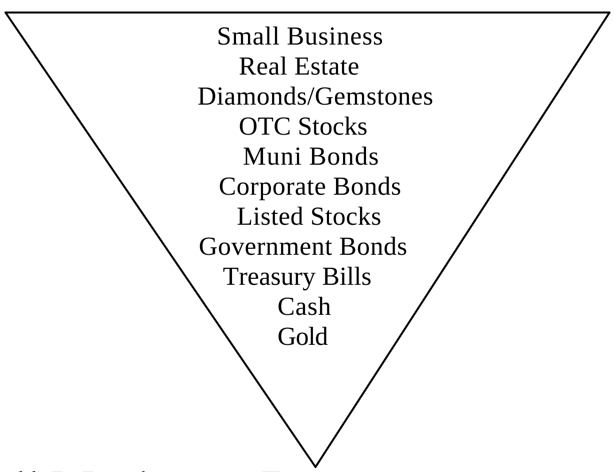
In 1929, 659 US banks failed. In 1930, at least through October, approximately the same number shut their doors. Then in the final 60 days of the year, with a sickening suddenness, another 600 banks were suspended, bringing the annual total to 1352. As the failures intensified, “mobs of shouting depositors shouldered up to tellers’ windows to withdraw their savings”. Freedom From Fear, p.66. In 1931, another 2294 US banks failed. When these depositors withdrew their savings, not only did they take cash (paper money), but they also took out gold, which at that time be converted from paper money at a fixed price of $20.67 per ounce. Of course gold can be purchased today, but the price is not fixed and it is rising in the face of increasing demand.

5. A flight from cash into gold

As the banking failures intensified and the gold standard monetary system began to crumble, initiated by Great Britain's repudiation of gold in September 1931, the move from cash to gold became a stampede; so much so, that the US was on the verge of running out of its official gold holdings. As a result, in 1933, the US was forced off the gold Exchange standard system, and confiscated private gold holdings, to replenish depleted reserves.

The Inverted Financial Pyramid

John Exter, a past member of the Federal Reserve Bank, has been a gold advocate for most of his business life. I have kept some of his writings and treasure them. It was John Exter who called the fiat dollar 'an iou nothing'. A long time ago, I saw a copy of his inverted pyramid chart, which he had constructed to indicate the relative degrees of liquidity in financial assets during a deflationary collapse, which he believed inevitable in a fiat money system. I wished I still had that chart; Lo and behold, in his January 2003 issue of Gold and Technology Stocks, my good friend, Jay Taylor, used John Exter's chart, which I have reproduced here. "As you work your way down the pyramid from top to bottom, you encounter increasingly liquid assets. The only asset on the pyramid that retains intrinsic value and liquidity, no matter what happens through any and all circumstances is gold." Ibid



Gold Bull Market in Progress

Gresham's Law states 'bad money drives out good money', which means if paper money and gold exist side by side, people will use paper money and hoard gold. We are in the initial stages of repeating Gresham's Law once again. Trust in paper money is eroding fast and the 5000-year history of gold as the ultimate money of choice is once again giving competition to paper money, which is simply backed by a mountain of debt.

The gold bull market is already in progress, but it has gone unrecognized, except by the few astute investors, who know that the seasons have changed.

"Heaven weeps above the earth all night till morn,
In darkness weeps as all ashamed to weep,
Because the earth hath made her state forlorn
With self-wrought evils of unnumbered years,
And doth the fruit of her dishonour reap.
And all the day heaven gathers back her tears
Into her own blue eyes so clear and deep,
And showering down the glory of lightsome day,
Smiles on the earth's worn brow to win her if she may.

Alfred, Lord Tennyson
The Tears of Heaven

Winter is the season when all the excesses that have been built into the economy during the entire Kondratieff cycle, particularly autumn, are cleansed. This cleansing is always extremely unpleasant and involves severe financial and monetary distress. It is this acute distress that drives investors to the ultimate money—**gold**

All enquiries concerning investment accounts or junior gold mine financing may be directed to:

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