



21st Anniversary Special Edition

US \$19.95

# Real Money Perspectives

# GOLD THE COLOR OF HOPE





# AMERICA: For Better... Or Worse?

**Having muddled through 2003, Americans are tired, strapped and confused about the future of everything ... from ethics to economics.**

**Americans** are holding on tighter than ever to their standard of living, but at the cost of the family unit and future generations.

**Who** will lead us out of today's political and economic stagnation; *Politicians? Economists? Businessmen and women? The church?*

**Join me**, as we expose the truth about why **RED** (ink) is the color of bondage -- and **GOLD** is the color of hope!



**Craig. R. Smith**  
CEO SWISS AMERICA





# THE NEW GOLD RUSH II

# GOLD

## THE COLOR OF HOPE

### INTRODUCTION

#### GOLD: THE COLOR OF HOPE

by **Craig R. Smith**, CEO Swiss America - Who will lead the next American socio-economic recovery?...

### MARKET NEWS SUMMARY

#### ●THE NEW 21ST CENTURY GOLD RUSH! ...Page 1

By **Craig R. Smith**, CEO SATC - It's a slow moving bull, the most healthy type of market, given the excesses...

#### ●39 ECONOMISTS AGREE ON SOMETHING TANGIBLE! ...Page 3

By **David Bradshaw**, Editor SATC - The technical and fundamentals for the next leg of the bull market in gold are all in synch...

#### ●THE NEW SILVER RUSH! ...Page 4

Gold is not the only precious metal in a new bull market...

#### ●DREAMCATCHERS ...Page 5

by **Stephen Roach**, Morgan Stanley - As I see it, there are five myths to the recovery call of 2003...

#### ●THE OTHER TWIN TOWERS ...Page 7

By **Dan Denning**, Strategic Investment - Remember how you felt the day the World Trade Center came down?...

#### ●A NEW GOLD RUSH BEGINS ...Page 9

By **Thom Calandra**, CBS MarketWatch - A new stock exchange traded gold fund, the first of its kind is coming...

#### ●WE ARE ALL KEYNESIANS NOW ...Page 9

by **Roger Arnold**, MyHomeLender.com- The economy has played out exactly as the Austrians have predicted...

### U.S. STOCKS, BONDS, DOLLAR & DEBT

#### ●BEAR MARKET STILL 'HAS A LONG WAY TO RUN' ...Page 10

by **New York NEWSDAY**, Interview of PrudentBear's David Tice

#### ●THE U.S. DOLLAR... ACHILLES HEEL ...Page 11

by **RICHARD RUSSELL**, DowTheoryLetters.com- The dollar is the Achilles Heel of the whole US economic situation...

#### ●PANIC IF THE GOLD IS GONE ...Page 11

By **Kelly O'Meara**, Insight

#### ●THE KINDNESS OF STRANGERS ...Page 12

by **Bill Bonner**, DailyReckoning.com- The U.S. deficit is covered by the kindness of strangers in foreign countries...

#### ●DEFINING DIVERSIFICATION ...Page 13

KENN Interviews **Craig R. Smith** - For 20 years, we've advocated gold and silver add balance to a portfolio...

### TANGIBLE SOLUTIONS

#### GOLD: GOOD TIME TO BUY ...Page 14

by **Mary Anne and Pamela Aden**, AdenForecast.com- The last good buying opportunity for a long time to come...

#### THE RELATIONSHIP OF BULLION TO U.S. RARE COINS ...Page 15

by **Dr. Fred Goldstein**, Swiss America

#### ●HEDGING YOUR FINANCIAL FUTURE ...Page 15

by **Richard Spohr**, Swiss America - Gold is a hedge to your exposure to the equity, bond and real estate markets...

#### GURUS STILL GOING FOR GOLD ...Page 17

by **Forbes** - Is there life yet in gold's three-year run? Yes, say gurus tracking the metal...

### LEARNING FROM HISTORY

#### ●OPTIMISM VS. REALISM ...Page 17

by **David Bradshaw**, Editor SATC - Optimism is out, realism is in, Saying no to the "hurry up" world...

#### ●GOLD AND ECONOMIC FREEDOM ...Page 18

by **Alan Greenspan**, Federal Reserve Chairman - Deficit spending is a scheme, gold the protector of property rights...

#### ●THE HISTORY OF YOUR MONEY ...Page 20

Celebrity Coin Collectors Coin collectors are in the company of Kings...

#### ●THE GREAT DEBATE ...Page 21

by **Dennis Peacocke**, GoStrategic.org - The Most Important Thing That Must Come from The Iraqi War...

#### ●CAPITALISM VS. CONSUMERISM ...Page 22

by **Joe Johnson**, Business Reform- Capitalism is an outworking of a Christian investment philosophy...

#### ●ALL COINS ARE NOT CREATED EQUAL ...Page 24

By **Craig R. Smith** - Four major categories of U.S. coins are outlined...

#### ●CONFLICTING OPINIONS ...Page 25

By **John Maudlin**, FrontlineThoughts.com- I cannot remember a time when competent analysts disagree so much...

#### ●FED VS DEFLATION: WHO WILL WIN? ...Page 25

By **Martin Weiss**, PhD, SafeMoneyReport.com- We are now witnessing one of the greatest economic battles of all time...

#### ●COIN MARKET NEWS ROUNDUP ...Page 26

U.S. rare coins are breaking all records as demand outstrips supply...

#### ●GOLD MINE: The New SwissAmerica.com ...Page 27

by **Craig R. Smith** - As you are reading this, the next chapter is already posted online...

#### ●MY NO MATTER WHAT HAPPENS STRATEGY ...Page 27

By **Pat Boone** - Stocks, bonds, real estate, cash or gold. Investing and collecting...

#### ●SWISS AMERICA EDUCATIONAL RESOURCES ...Page 28

A listing of all of the current resources available to help educate you about gold coin investing and collecting.

#### ●A RADIO SALUTE TO AMERICA ...Page 28

Swiss America is the proud sponsor of a growing variety of radio talk shows helping to rebuild America.





## THE NEW 21ST CENTURY

# GOLD RUSH!

By Craig Smith, CEO

Yes, the new gold rush is gaining steam, as I said it would back in 2001, but it is a slow moving bull - perhaps this is the most healthy type of market, given the excesses that we have seen in equities over and over and over.

Voices of caution and reason like Richard Russell, Stephen Roach, Bill Bonner, The Aden Sisters...just to name a few, do not view the recent run up in stocks as a new bull market, but rather, a bear market rally -- that appears to be topping out.

**My question is, "Where is the economic recovery to fuel such a new bull market?"**

Have we considered the grim economic fundamentals we all face, like...

- Record personal bankruptcies
- Record federal budget deficits
- A massive U.S. trade deficit
- A rapidly declining greenback
- High unemployment (the REAL level is at more than 10 percent)
- Debt levels in the U.S., which are now more than 300 percent of GDP
- A housing bubble ready to pop
- Ridiculous over-valuation of stocks, DOUBLE the historical norm
- Paltry dividends in the 2 percent range
- The worst budget crunch for local and state governments in 50 years
- A feeble manufacturing sector
- Massive under funding of corporate pension plans
- Tech stocks like EBay, Yahoo and Amazon have P/E ratios that would have been a warning sign when the Nasdaq was at 5,000
- Continued overcapacity, no pricing power for corporations and stalled business spending



And these are just a FEW of the factors that explain the rising bullishness on gold coins.

I am now convinced that gold bullion and U.S. numismatic gold & silver coins are in a long-term ("secular") bull market that could go on for many years!

Even the most bullish stock analysts will concede that today the potential of a severe, long-term bear market in stocks and the U.S. dollar is very possible -- because all markets are cyclical in nature. Smart money is beginning to understand that we are in a major paradigm shift in which investors sell paper denominated assets and buy hard assets like gold and other commodities.

YES, gold is the color of hope in the months and years ahead. With prices at or about \$350, gold is still a major bargain. U.S. rare coins are continuing to break records at auction, which puts upward price action pressure on this supply and demand driven market -- even when gold prices fluctuate!

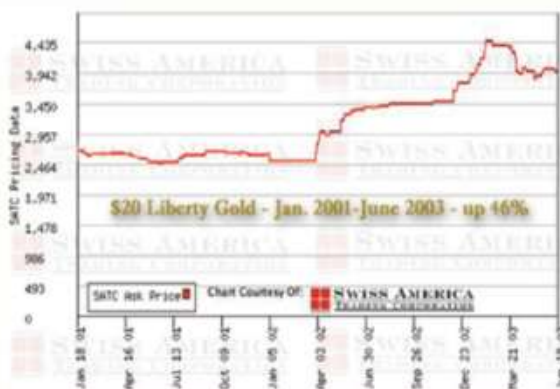




## STOCKS VS. GOLD

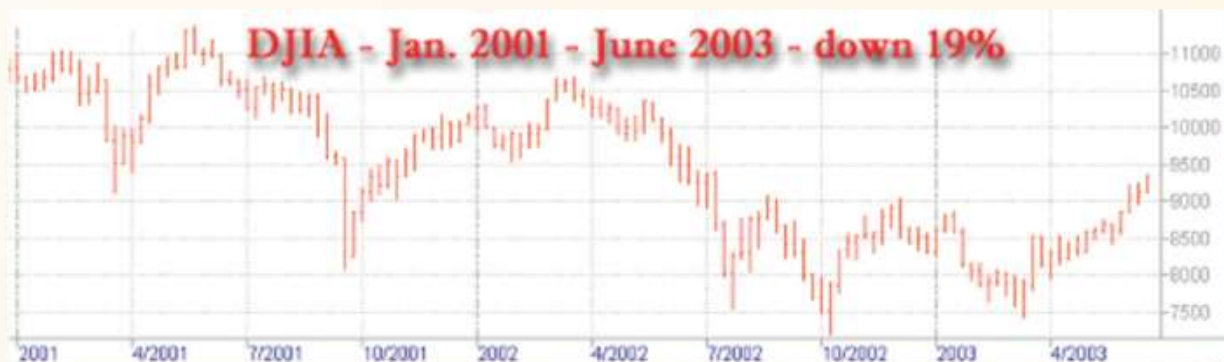
Let's compare market performance since Jan. 2001. You remember, the new bull market in stocks was "right around the corner," according to all the media pundits. Gold was \$270 per ounce and the Dow was sitting at 11,000.

As the charts show, this period has been a very bumpy ride in stocks, but, if you had taken our advice and put 10-20% of your portfolio into gold and/or rare gold coins, you would have had a nice cushion against the ongoing BEAR market in stocks by participating in the emerging BULL market in gold. Notice high quality gold coins are up between 25% and 46%!



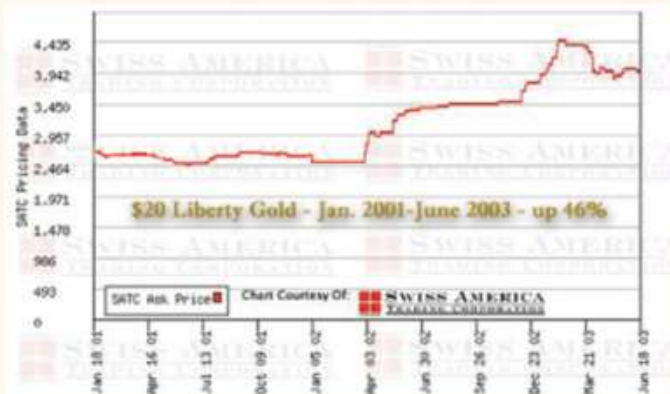
**JAN. 2001 - JUNE 2003:**

\$20 LIB (MS65)  
UP 46%  
\$20 ST. (MS65)  
UP 25%  
GOLD (bullion)  
UP 35%  
DJIA  
DOWN 19%



**Water under the bridge, you say? OK, let's say you ignored our advice until last summer, June 2002.**

You remember, gold was \$320 per ounce and the Dow was sitting at 10,000... and the economy was supposed to begin "recovering," right? Again, as the charts show, it has been yet another bumpy year for stocks, until March 2003, when the post-war rally began. But even considering the stock market's 20% increase in the second quarter, most stock investors are still not yet even with June 2002 price levels. Again, IF you had taken a portion of your money off the table and put it into gold and/or rare gold coins, you could be up between 11% and 19%!



**JUNE 2002 - JUNE 2003**

\$20 LIB (MS65)  
UP 19%  
\$20 ST. (MS65)  
UP 13%  
GOLD (bullion)  
UP 11%  
DJIA  
DOWN 6%

Continued  
on Page 4





# 39 ECONOMISTS AGREE ON SOMETHING TANGIBLE!

by David Bradshaw, Editor Swiss America

**"Americans work more than ever"**

MSNBC

**"Consumer Debt Soared in May"**

NY Post

**"Dot-com Bust has Freed up Freeways"**

SF Chronicle

**"Home sales sputter while listings climb"**

Dallas News

**"Are job numbers right and market wrong?"**

CNN

**"Continuing Jobless Claims at 20 year High"**

Washington Post

These are just a few sample headlines from the Summer of 2003! Yet most Americans remain optimistic that the worst is now over and that the future will bring with it better times. In the meantime, depression and suicide are on the rise, especially among our youth. For example ...

- **For every two homicides in the U.S. there are three suicides.**
- **Every hour and forty-five minutes another young person commits suicide.**
- **Suicide is the 2nd leading cause of death among college students and the third-leading cause of death among youth overall (ages 15-24).**
- **Teen/youth suicide rates have tripled since 1970.**

What do these dark statistics have to do with economic trends? Everything! More importantly, what (if anything) can be done to restore hope to the hopeless among us? That is the subject of The New Gold Rush, Part II: The Color of Hope.

There is one thing that Americans are looking for right now and that is people who have a strong conviction about the product or service that they offer. People with a passion for financial truth are rediscovering gold at a record pace. Frustrated with growing government debt, many Americans are putting themselves on a personal gold standard for protection, privacy and profit potential.

## PRIVACY, PROTECTION & PROFIT POTENTIAL

Americans enjoy unlimited benefits from new technologies in a wired world. But those wires send information in two directions, and the access to our personal data has never been more open for abuse. It's not just the Internet that erodes our privacy. In dozens, possibly hundreds of every-day activities, we leave a trail of our identity. As technology brings us closer together, the fragments of information about us are becoming much easier to piece together, revealing the most intimate details of our lives.

The little known advantage of owning U.S. rare gold coins is that they are

bonds, mutual funds and Treasury Bills are all registered investments. In the case of a stock, if you buy it for \$10 a share and then you sell it for \$20 (or \$5) a share, the stock brokerage must report that gain to the federal government. Not so in the case of rare (numismatic) gold coins - whether you buy or sell, there is no transaction report filed with the state or federal government.

Our Founding Fathers invested their best collective wisdom into our precious founding documents to ensure America would never again be taken captive by tyrannical forces - governmental or economic - as long as we obey the law. For that reason I've enclosed all of our original founding documents in the Appendix of my book, REDISCOVERING GOLD IN THE 21ST CENTURY. I suggest taking an hour and re-reading these historical documents carefully. As they say, "Ignorance of the law is no defense."

Political, social and economic freedom are the bedrock of America's unique brand of freedom - just like gold is the bedrock of America's unique history of economic freedom. Historic United States gold and silver coins stand as one of the last guardians of your financial freedom, liberty and privacy in the 21st century - just as they have in the 18th, 19th and 20th century.



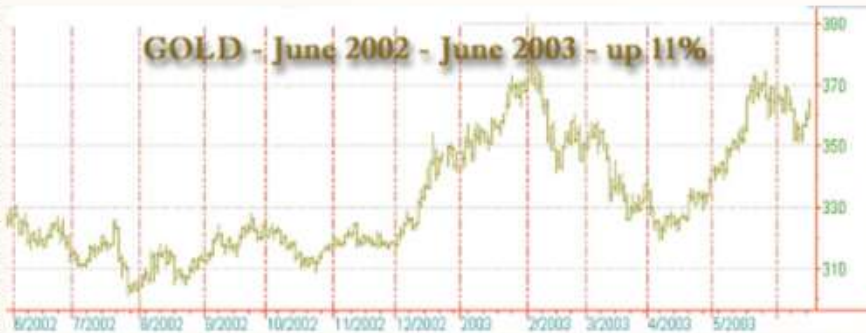
So, let's celebrate freedom by rediscovering gold. Now you can have some fun, make some money and discover America's rich heritage - all at the same time! Good news is spreading fast. 39 economists have finally agreed that owning tangible assets (like gold and silver coins) are best foundation for restoring hope and financial freedom to America -- before it's too late!





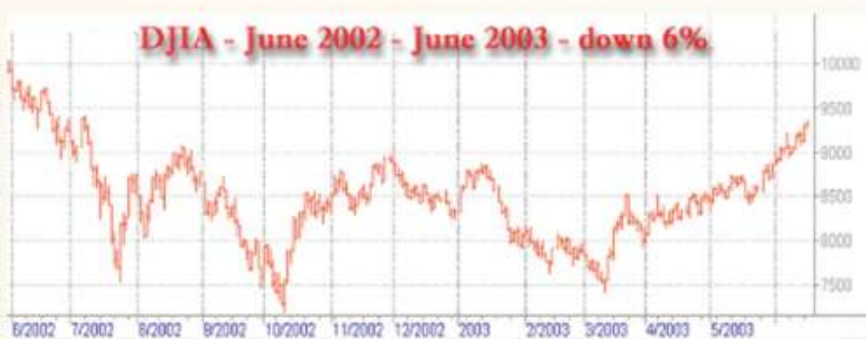
(Continued from page 02 - 21st Century Gold Rush!)

In the summer of '03 everyone from Jim Cramer of TheStreet.com to Tom O'Brien of The Gold Report -- regardless of whether they're stock bulls or bears -- are presently begging their audiences to take some of the profit from a stock market rally off of the table and move it into either cash or gold. But, will you listen to them (or us) NOW and TAKE ACTION?



**That is the \$64,000 question!**

I hope so. If so, one year from now ... two years from now ... five years from now, you will have kept your peace of mind. If you diversify a portion of your money into gold you will not have to worry about whether the stock market rally of '03-'04 was for real -- or just another fake out -- another sucker's rally like we witnessed back in October, '01-'02.



## DOWNSIDE RISK VS. UPSIDE POTENTIAL

With all of this as a backdrop, I ask you to consider your downside risk on gold -- perhaps 10-15%. Now, consider your upside potential if gold bullion moves to \$500, \$600 or \$700 in the next few years. That would be 40%-200% increase from the current \$350 price. But that is just the potential of gold bullion. The upside potential of investment grade U.S. rare coins is two to three times higher than bullion, based on past performance (1980-2003). [DISCLAIMER: Past performance is no guarantee of future performance.]

I have confidence in our product, based on a 6,000 year track record which illustrates that gold is worthy of your confidence, no matter what crisis we may face.

**The real question is, "Can you afford NOT to own some gold right now?"**

That question must be answered by each investor once he comes face to face with the facts, the numbers and the alternatives. That is the job of Swiss America brokers and, if they have done their job right, you will soon understand why we are 100% confident that rare gold coins are ready to rocket.

As I have said many times, "Bull or bear? Who cares!" ... IF you have hedged yourself with tangibles, you win either way!



## THE NEW SILVER RUSH?

While many look at silver as a poor cousin to gold, it has at times significantly outperformed gold. It certainly did that during the 1970s. From 1971 to 1980 the price of silver skyrocketed, climbing from \$1.30 per ounce to \$50 per ounce.

That was a gain of 3,746%! During the same period, the price of gold bullion rose from \$35 per ounce to \$800 an ounce -- a gain of 2,186%.

Since 1980, silver has been in a bear market with only the occasional spike, such as the breakout it had in early 1998, when it soared to \$7.50 per ounce.

In 2001, silver established a 28-year bottom of \$4.14 per ounce. In 2002, it moved its floor price to \$4.50 and has moved up over the past few months, putting it in striking distance of the psychologically important \$5-per-ounce benchmark. Once it clears \$5, the next technical resistance is in the \$5.60 to \$5.90 range. If it breaches this barrier, the white metal will not face any technical resistance until \$7.70.

That means that silver is very cheap at its current price. It also has very attractive fundamentals. July 8th China launched its physical Silver Market in Shanghai. (This opens the door to 20% of the world's population to purchase silver.)

The current supply and demand picture is extremely bullish. For 13 years annual demand has outpaced new supplies -- in some cases by huge margins of as much as 100 million ounces. In fact, the cumulative deficit rung up over the past 13 years totals 1.2 billion ounces, more than total annual world demand.

Silver has come off its lows, and that tells me that the "smart money" is already buying some inflation insurance in the form of silver. Once inflation becomes more apparent, silver will probably behave as it always has -- explosively.

**Call 1-800-289-2646 for a free copy of the Silver Research Report.**







Recent Quotables posted at [SwissAmerica.com](http://SwissAmerica.com)

**39 ECONOMISTS AGREE ON SOMETHING TANGIBLE! (A-Z)**



1) *"Gold is the no-brainer investment of our lifetime."*

RICK ACKERMAN, [MarketWise.com](http://MarketWise.com)

2) *"Gold's bull market is solid and it's poised to rise to new bull market highs before the year is over."*

MARY ANNE & PAMELA ADEN, [Adenforecast.com](http://Adenforecast.com)

3) *"Without the patience, you will be deprived of benefiting from gold's secular rise."*

DR. RICHARD S. APPEL, [FinancialInsights.com](http://FinancialInsights.com)

4) *"What we are seeing is the deflation of the huge bubble created in the last 3 decades of the 20th century. The Trade of the Decade - sell stocks, buy gold - still looks good."*

BILL BONNER, [DailyReckoning.com](http://DailyReckoning.com)

5) *"The stock market may go up... for a while. But happy days may not necessarily last -- except perhaps for gold."*

PETER BRIMELOW, [CBSMarketWatch](http://CBSMarketWatch)

6) *"Derivatives are time bombs and are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal."*

WARREN BUFFETT, [BerkshireHathaway.com](http://BerkshireHathaway.com)

7) *"Gold's price is on the verge of staging a powerful summer rally in all currencies."*

THOM CALANDRA, [CBSMarketWatch.com](http://CBSMarketWatch.com)

**THE DREAM MERCHANTS ARE HARD AT WORK PEDDLING THE TALE OF ANOTHER ECONOMIC REVIVAL**

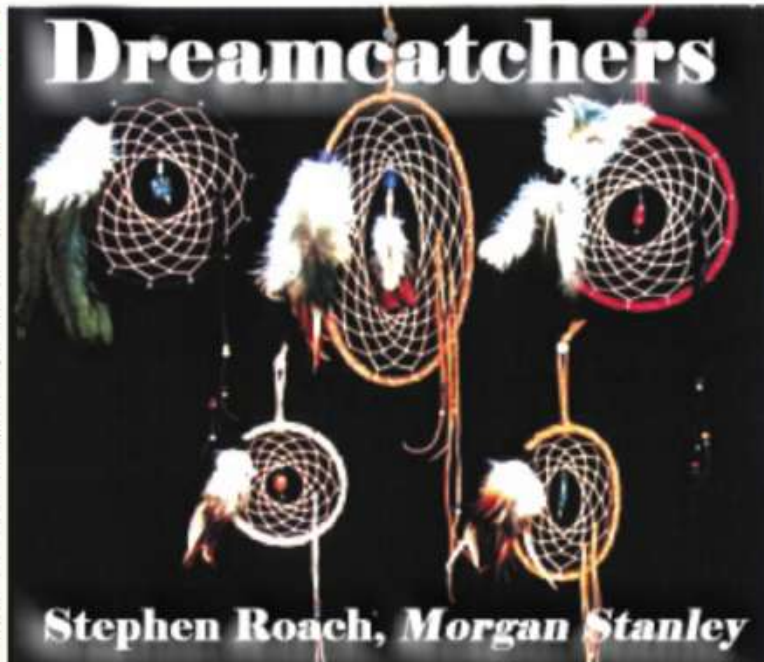
The magic of postwar relief is widely billed as the catalyst. A veil of uncertainty will be lifted so goes the argument prompting businesses and consumers, alike, to unleash the animal spirits of pent-up demand. Just as America led the charge to Baghdad, the US economy is now presumed to lead the way to global recovery. Prewar malaise will give way to postwar healing, and presto world financial markets will unwind many of the trades that have been in place for the past six months. Just like that.

To me, this is a leap of faith of Herculean proportions. While I certainly concede it is possible to get from Point A to Point B, I am hard-pressed to believe that the path will be seamless or expeditious. As I see it, there are five myths to the recovery call of 2003, each of which draws the postwar healing scenario into serious question:

**1) First and foremost, is the myth of another US-led recovery in a lopsided global economy.**

I fully realize that's precisely the way it's been for so long, that most now take this American-centric growth dynamic for granted. Yet global imbalances have now reached the point where another burst of US-led growth would be inherently destabilizing. Reflecting a US economy that accounted for fully 64% of the cumulative increase in world GDP over the 1995 to 2001 interval, the US current-account deficit hit a record \$548 billion in the final period of 2002, or 5.2% of GDP. If the world stays the path of its US-centric growth dynamic and if America's federal budget goes deeper into deficit, as certainly seems likely, the US current-account deficit could easily surge toward 7% of GDP. These are external imbalances that the global economy has never before had to face, let alone finance. Yet the postwar healing scenario presumes that massive and ever-widening external imbalances don't matter at all and that they can be easily financed at current exchange rates and other relative asset prices. I don't buy that. The only way out of this trap, in my view, is for a long overdue global rebalancing less growth in the United States and more growth elsewhere around the world. Unfortunately, there are no signs that such a rebalancing is in the cards.

**2) The notion of a capex-led recovery in the United States is a second myth of the global**



**healing scenario.** I don't doubt for a moment that balance sheet repair is well advanced for Corporate America. What I have a problem with is the belief that such progress will spark an imminent revival in business capital spending (see my 5 March dispatch, "Capital Spending Myths"). There are three serious flaws to this argument, in my view: First, most US businesses are still lacking in pricing leverage. That means, reflective of a world awash in excess capacity, the risks are still biased more toward deflation than inflation. In keeping with this depiction, the capacity utilization rate for US manufacturers fell to 72.9% in March 2003 more than seven percentage points below the 30-year average of 80.2% recorded over the 1972 to 2002 interval. A capex-led revival would only exacerbate this overhang of excess supply the last thing a deflation-prone world needs. Second, history tells us that capital spending never leads a US cyclical recovery it responds to perceived improvements in end-market demands, mainly for consumers. Such demand visibility is not exactly evident these days. Third, since information technology now accounts for fully 55% of total real spending on US capital equipment, many hold the view that long-deferred IT upgrades will spark a capex-led recovery. This overlooks the enormous consolidation occurring in the IT user community, suggesting that there will be fewer buyers if and when the IT replacement cycle turns. The notion of an IT-led upsurge also sweeps away one of the most painful remnants of the bubble-induced excesses of the late 1990s. All in all, I suspect that Corporate America will remain quite cautious in committing to a new wave of IT projects.

**3) A third myth of recovery is that America has fixed its saving problem,** thereby removing one of the key impediments to sustained economic revival. Nothing could be further from the truth. Sure,





the US personal saving rate has now moved up to 4.0% well off the rock-bottom level of 0.3% hit in October 2001 but still only about half the 9.0 % pre-bubble average that prevailed over the 1970-94 interval. But that's beside the basic point. The modest rebound in personal saving has been funded by a massive reversal in the government's saving position, as the federal government's budget has swung from a surplus of 2.3% of GDP in early 2000 to a deficit of 2.3% in late 2002. As seen through the lens of the national saving rate the combined saving of households, businesses, and the government sector the United States is in terrible shape. America's net national saving rate which also subtracts the depreciation charges associated with the replacement of worn-out capital fell to an all-time low of 1.3% in the second half of 2002; by way of comparison, this same metric averaged about 5% in the 1990s and considerably higher in recent years. This is a proxy for the domestically-generated saving left over to fund investment, the sustenance of any economy's longer-term economic growth potential. Lacking in such domestically-generated saving, America has no choice other than to import surplus saving from abroad and run a massive current account deficit in order to attract such capital. But that's not all. As the US federal budget now plunges far deeper into deficit reflecting the combined impacts of a weak economy, war and postwar spending commitments, and ill-timed multi-year tax cuts America's net national saving can fall only further. Another myth of the global healing scenario is to presume that this just doesn't matter.

**4) A fourth myth of recovery is to pretend that the deflationary scare is over.** After all, this was a low-probability scenario from the start, goes the argument. And as global healing presumably sparks a turn in the business cycle, it seems appropriate to revert to the time-honored fixation on inflation. A bit of a reality check is in order here. In case you haven't noticed, America is still sliding down the slippery slope toward deflation. Sure, a war-related surge in energy prices is boosting headline inflation. But the core rate of inflation is receding sharply. Excluding food and energy, the US Consumer Price Index was unchanged in March 2003 and was up at only a 0.8% annual rate in 1Q03; that's well below its cycle peak of 2.8% in late 2001 and sufficient to bring the year-over-year comparison in March down to 1.7% nearly a 40-year low. There are three ingredients to the case for deflation a weak cyclical climate that continues to restrain aggregate demand, a post-bubble legacy of excess supply, and the unrelenting pressures of globalization which are leading to intensified competition in both tradable goods and services. The perils of global deflation, which first reared their ugly head in Asia, still pose considerable risks to America and Europe, in my view.

This is not the time to sweep those risks under the rug.

**5) A fifth myth of recovery is the notion that postwar healing in the US is about to spark an economic revival elsewhere in the world.** Unfortunately, the world is still headed the other way. Our European and Japanese teams still see little, if any, positive growth in 2Q03. The recent data flow on the Euro-zone production front wasn't quite as bad as we had thought, but the trend remains consistent with only fractional GDP growth, at best. Moreover, while the just-released annual revisions to the Japanese industrial production data were on the upside, as expected, the underlying trend still looks quite stagnant. Meanwhile, SARS-related downside risks seem to be cropping up everywhere in Asia ex Japan. Hong Kong's economy has come to a virtual standstill. Singapore's government recently noted that tourist arrivals are down some 61% (YoY) in the first 13 days of April. And Taiwan, Korea, and Malaysia are all bracing for SARS-related impacts. China remains the outlier in the region, especially on the heels of its stunning 9.9% increase in 1Q03 real GDP growth. However, in a weakening regional and global climate, even the sustainability of China's growth dynamic can now be drawn into question. Total trade exports and imports, combined hit a record 61% of GDP in the first period of this year; that's up from 50% in 2002 and essentially double the 32% reading of a decade ago. Moreover, the growth in exports, alone, accounted for 71% of overall GDP growth in the four quarters ending in 1Q03; this not only underscores China's extraordinary dependence on the combination of external demand and surging outsourcing activity but it also reveals a notable lack of autonomous support from domestic demand. In short, there's little reason to believe in the myth that the non-US world is about to provide its own spark to the global growth outlook.

The basic problem with the postwar healing scenario is that the world was facing many of these problems long before the war in Iraq. War, and the stunning victory that has since ensued, changes none of that. After all these years, a US-centric world now makes for an increasingly dysfunctional global economy. Moreover, courtesy of SARS, runaway US budget deficits, and lingering structural problems in Japan and Europe, the major risk is that the imbalances are about to get worse possibly a lot worse. There's nothing like the romance of postwar recoveries and cyclical revivals. For those of us who choose instead to remain cold, calculating, and unemotional, the world still looks like a very treacherous place.

#### CALL ME A DREAMCATCHER.

*Stephen Roach is an economist for MORGAN STANLEY.*



Recent Quotables posted at  
SwissAmerica.com  
**39 ECONOMISTS  
AGREE ON SOMETHING  
TANGIBLE!**

**8) "THE WSJ is very confused about inflation...even BLS, says the numbers understate the rising cost of life."**

**JOHN CRUDELE, NYPost.com**

**9) "If you are not buying gold at these prices, then you are not competent to manage money or make economic commentary."**

**RICHARD DAUGHTY, The Mogambu Gurni, Forbes.com**

**10) "We are at the early stages of another bull market for gold." Gold is the ultimate hedge during times of crisis. Central bankers pretend that gold is no longer money, but everyone knows that it is the only real money."**

**JEAN-MARIE EVEILLARD, First Eagle Gold Fund**

**11) "I don't think it's debatable that gold has embarked on a new bull market."**

**BILL FLECKENSTIEN, MoneyCentral.com**

**12) "Americans are holding on to their standard of living not as a function of their productivity, but at the sacrifice of the family unit, and at the expense of their own future generations, and at the expense of the rest of the world."**

**FRANK GIUSTRA, DailyReckoning.com**

**13) "Interest rates beginning with the numbers 1, 2 or 3. They were the rule not the exception in the days of the gold standard."**

**JAMES GRANT, Forbes.com**

**14) "Gold and economic freedom are inseparable...Deficit spending is simply a scheme for the 'hidden' confiscation of wealth."**

**ALAN GREENSPAN, Federal Reserve Chairman**





# THE OTHER TWIN TOWERS

Dan Denning, Strategic Investment

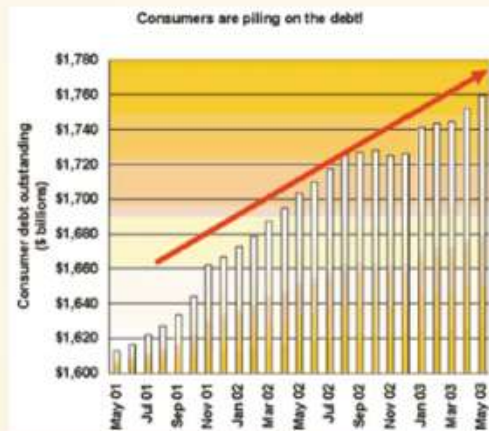
## The Shocking Case for Another Depression

Remember how you felt the day the World Trade Center came down? Remember the sick feeling in the pit of your stomach...the grief... the rage...the fear of where they would strike next?

Well, there's another set of twin towers -- you can see them for yourself in the chart above. And this time, you're in the towers. Think of how you'll feel if you lose your job. Maybe even your house. Think of how you'll feel if your stocks go down another 70%. What life will be like if your bank says you can't access your accounts -- you'll have to wait until the government sorts everything out and decides how much you get.

Thousands of banks closed during the Great Depression. On a smaller scale it even happened in the early 1990s.

There's a lot of yada-yada these days about a double-dip recession, a possible depression, or even a powerful recovery with a 40% jump in stocks. Who needs another opinion? I don't. I prefer facts.



So let's look at the facts. The chart shows every penny Americans owe. It's expressed as a percentage of Gross Domestic Product (GDP) -- the total of everything we produce in a year. At the end of 2002, we owed \$31 trillion -- that's "T" as in "Trillion" -- which is about three times our GDP of \$10.5 trillion.

The only time things were this bad was during the Great Depression of the 1930s.

What's your share of the debt? About \$110,000. How about a family of four's share? About \$440,000. Of course, those are the averages. Maybe you're rich and it doesn't sound like a

lot. But half the families in America make less than \$42,000 a year, so trust me, \$440,000 is a lot. You may be in great shape yourself...for now...but your stocks, your home value, and your source of income are not secure if the nation goes bust.

From the chart you can see that for the whole period from 1940 to 1980 things were under control, more or less. Not any more. We're piling it on, and the only time it's happened before was the Great Depression.

As you can see, the debt has been going practically straight up since 1980.

If you just project the trend, the debt will go to \$40 trillion or even \$50 trillion really fast. In reality, that's not going to happen. It can't. We will go broke before it does. We won't even be able to pay the interest, much less the principal, and nobody will lend to us anymore.

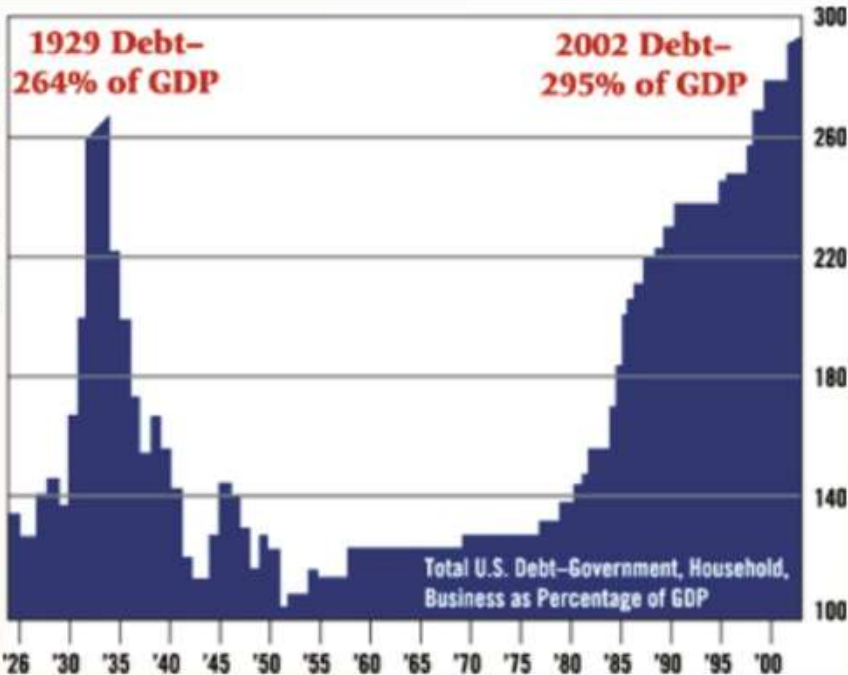
Look at the chart above and study the first tower, the one from the Depression.

The debt came down, and pretty darn fast. It didn't get paid; it got written off. The lenders lost nearly all that money. Bank accounts got wiped out, stocks went nearly to zero, real estate values plunged.

### We Predict the Worst Is Yet to Come

As I write this, the Dow is off more than 29% from the all-time high it hit over three years ago. The number one question on every investor's mind is whether we've seen the bottom and recovery is on the way, or whether we're going to see the second dip in a double-dip recession.

They're asking the wrong question.



The right question is whether there has been a fundamental change in the long-term trend. The right question is whether this is an average bear market or a historical turning point.

We say it's a major turning point. If we are right, most American stocks will fare poorly for a long time to come. That is true even if there is a rally right now that takes us almost back to the highs. In fact, we expect big rallies. We'll even play some of them. But they don't change our basic stance one bit.

More important: If we're right, your livelihood and everything you own is at risk. Even your personal safety -- and that of your loved ones -- is at risk since a major economic catastrophe may result in civil disorders (more on this in a moment).

### How Can We Say This?

We can say the bottom will be so incredibly low because the highs were so incredibly high. You see, we study the past, and we've observed an empirical fact. The losses that follow the bubble almost exactly match the gains made during the boom. Economics isn't an exact science, but this comes close to being a law. The higher the markets go, the lower they fall.

At the peak of each market bubble the curve gets so steep it's almost straight up. People who project the curve into the future make some pretty funny predictions. Remember James K. Glassman and his book *Dow 36,000*? Remember when folks said the emperor's palace in Tokyo was worth more than the whole state of California?





When the crash comes, the market gives up almost all its gains. You can see it for yourself just by eyeing these graphs. In U.S. stocks that process is still ongoing, and we haven't seen the bottom yet.

### How Low Can the Dow Go?

The average bear market in the last century has given back over five years of gains from its highest point. If the present bear market is an average bear market, the S&P 500 will decline to around its 1995 level -- about 450. That would translate into 4,000 on the Dow Jones Industrial Average. That would be an additional 50% drop from its level as I write this.

Now, I don't go overboard with technical analysis, as this sort of thing is called. If investing was as easy as just applying mechanical rules like this, we could all hang out at the beach while our computers made us rich.

**Right now, technical analysis gives us a prediction of 450 on the S&P 500 and 4,000 on the Dow if this is an average bear market. But...**

### You'll Wish It Was an Average Bear Market

The problem is this is not shaping up as an "average bear market," but as something far more serious. First off, the 1982 - 2000 bull market wasn't an average bull market but the longest bull market in U.S. history.

Second, its incredible rise was driven by a colossal debt expansion. The debt-to-GDP ratio is far larger than ever before in the history of the United States. (See the chart at the beginning of this report.) Worse yet, we get less and less bang for all those borrowed bucks. During the 1990s boom, each 4.8 dollars of debt bought us only one dollar of increase in GDP.

What's more, the boom-time stock valuations were far higher than ever before. At its peak, the Nasdaq sold for 180 times its earnings. People were paying in advance for 180 years of earnings! Even though stock prices have come way down, P/E's have remained stubbornly high because earnings have fallen right along with prices.

### So what can we expect?

Following the 1929 peak, the market gave back 15.5 years of previous gains. The brief 1970 bear market gave back seven years of previous gains, and the severe 1973 - 74 bear market gave back eight years. If you look at the charts for Japanese stocks and gold, you can see similar "retracements," as technicians like to call them.



At Strategic Investment, we believe the current situation is closer to that of 1929 than to the average post-WWII bear market. But let's be as optimistic as we can. You should expect the S&P to give back a minimum of the average bear market -- that is, a decline to the 1995 level around 450.

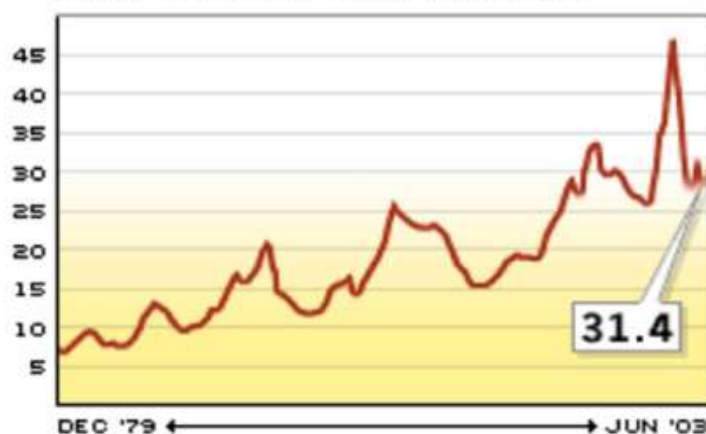
But it is far more likely to surrender previous gains going back to around 1990

(13 years), which would take the index down to 300. The corresponding level for the Dow Jones Industrial Average would be around 2,500! Don't keel over.

In a moment I'm going to tell you about the Next Big Thing -- the powerful bull markets of the next 10 years. Invest in these markets and you can multiply your money by a factor of five or 10.

## Hardly cheap

The S&P 500's price-to-earnings ratio, based on GAAP earnings.



SOURCE: STANDARD & POOR'S

Look again at the Tower of Debt. Clearly, there's no precedent for these debt levels except the Great Depression. Nothing else even comes close. In the 1950s, mortgage debt was only 15% of the value of our homes. We owned the other 85%. Now mortgage debt is 57% of the value.

Mortgage debt grew 60% faster in 2002 than in 2001. Refinancings last year were a hundred times their 1990 levels. Mortgage loan delinquencies are up 79% from four years ago. Defaults on FHA loans, mainly to low income buyers, are at an all-time high. And remember, unemployment hasn't even reached recession levels yet. What will loan defaults be like when it does?

It gets worse. Four out of 10 of us own our homes free and clear, so all the debt is carried by the other six guys. Their average mortgage is 80% of their home's value. A mere 20% drop in housing prices wipes them out. Personal bankruptcy filings have been growing at double digits. They currently hover around 1.5 million per year. Credit card charge-offs of bad loans are at an all-time high.

Credit rating outfits like Moody's are breaking all records when it comes to downgrading the debt of American companies. Total debt has surged 52% in the last five years. As I write, the most recent figures show it's growing at 7.7% per year. These growth rates will put total debt at \$41 trillion in four years, compared to \$31 trillion now. In 1980 the debt was only \$4 trillion.

A lot of people will dismiss all these worries. Doom-and-gloomers have been haranguing us about debt for a long time, and we're still here, right? The world hasn't ended. The answer to that is this: A lot of people predicted in the spring of 2000 that the stock market would continue to rise, based on the fact that it had been going up for 18 years in a row. No problem! Just take the trend and extend it into the future. All you need is a graph and a pencil.

Look at the debt chart and ask yourself if you really believe it's going to continue to go straight up. The truth is obvious, don't you think? This is not a routine bear market. This is a change in the Big Trend.

Dan Denning is the architect of Strategic Investment's winning portfolio up across the board, while Wall Street's finest take it on the chin. [StrategicInvestment.com](http://StrategicInvestment.com)





# A New Gold Rush BEGINS



CBS Marketwatch

## First U.S. gold exchange traded fund filed with SEC

By Leticia Williams & Thom Calandra

WASHINGTON (CBS.MW) -- A highly anticipated application for a new stock exchange traded gold fund, the first of its kind in the U.S., was filed with the Securities and Exchange Commission by the World Gold Council.

The London-based group filed a 206-page registration statement for 60.4 million shares, valued at \$2 billion, in what is being billed as a new way for small investors to play the gold market, typically the province of large institutions.

"It's the mother of all bullion products," said Andy Smith, a gold analyst at Mitsui Precious Metals in London.

The World Gold Council applied for approval to list the shares of the Equity Gold Trust, on the New York Stock Exchange under the symbol "GLD."

The new exchange traded fund (ETF) would be only the second commodities-linked exchange fund in the world. The first commodity-based ETF, Gold Bullion Ltd.'s Australia-traded security entered the market earlier this spring. The Australia fund is also backed by the World Gold Council.

# WE ARE ALL KEYNESIANS NOW

This is the famous quote attributed to President Richard Nixon when he ended the international gold standard in the early 1970's. What he should have said is that we are all "MONETARISTS" now; which is clearly what he meant. In other words, it was a vote for and acknowledgment of the benefits of having a fiat currency system over a fixed or quasi-fixed system. The implication being that central banks can control the business cycle through manipulation of currencies and rates.

The momentum is right now behind the equity run and could cause it to extend even further as markets begin to move from a war rally to war euphoria mode, and then to expectations of renewed economic activity. There is nothing wrong with a war rally or war euphoria, a reversal, at the margin, of the flight to safety that ensued before the war began.

But, the war euphoria is now running headlong into a full blown prediction of an increase in economic activity this year; which according

to wall street and the worlds central bankers will be the result of cheap money being made available to the market by the central banks.

This is the principal behind monetarist's philosophy. Don't worry, the FED will always be there to mitigate the slow down with cheaper and cheaper money as necessary, until the economy rebounds.

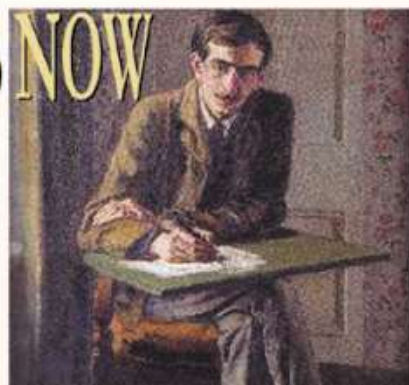
## This is where the rubber hits the road.

So far, over the past three years, the world's central bankers have been unable to ignite an economic resurgence. They are insisting however that the resurgence was beginning prior to the war and that the war then postponed the resurgence. Now that the war is drawing to a conclusion the resurgence in economic activity will begin anew is the mantra upon which equity markets all over the world are beginning to trade.

The markets are beginning to anticipate and predict the increase in capital borrowing, spending and investing that should, as promised, occur after the war has been successfully concluded. At least this is what the monetary leaders all over the world have been telling us.

This is the clashing of economic philosophies playing out right now. The monetarists insist that the slow down can be mitigated by the central banks. The Austrian school economists believe the exact opposite, that monetary manipulation can not supercede the economic cycle and can only effect it at the margin. They caution that the worlds economies will continue to slow and contract as a normal part of the economic cycle due to the necessity to work off the excesses of the late 1990's, regardless of what the worlds central banks do and that ultimately the stock markets will come to realize this, reverse their current trend, go to new lows and drag treasury yields to new record lows as well.

I believe the Austrian view, although not popular, is the more probable outcome for the future. However, the markets right now are not interested in this view of the economy. You should at least be cognizant of it.



## JOHN KEYNES

Monetarist vs. Free Market

by Roger Arnold

MyHomeLender.com

## Economic Activity

The markets are trying to catch a falling knife. And although it is likely that there will be a marginal increase in both capital and consumer spending following the conclusion of the majority of tensions in Iraq it is less probable that these increases will result in a secular economic resurgence.

For now the markets don't care about this and that is OK. Just make sure you understand them.

This is the equivalent of the markets predicting that the thin economic ice they are standing on that is actually melting more quickly now, solidifying underneath them and providing the foundation and justification for their preemptive increase in value.

All of this is occurring at the same time most wall street economists now predict that the FED and ECB will have to lower rates further in the US and Europe and Morgan Stanley is now predicting another world wide recession, becoming apparent this year.

So the economists are telling us that the economies of the US, Europe and Japan are likely to continue to slow or contract. Business leaders are telling us they have no substantial plans for expansion and instead are marginally tilted toward further job cuts and internal consolidation. Both of these views validate the Austrian model and concerns.

I don't know which philosophy will prove to be most right. I know that so far, over the past three years, the economy has played out exactly as the Austrians have been predicting and exactly not the way the monetarists have been promising.

Why then are the markets putting so much faith in the monetarist's view versus the Austrians view of the future? To put it bluntly, it best represents their business needs. Whether it is logical or rational has taken a back seat to hope and business need. No wall street firm is going to increase its sales of stocks and bonds by warning of the potential for continued economic contraction. So, for the most part, it is not discussed. But, remember, markets are not self-validating.

Roger Arnold is CEO of Myhomelender.com and is heard daily 11-12 ET on TNN.





## Bear Market Still 'Has a Long Way to Run'

**-NEWSDAY  
Interviews  
David W. Tice**



**ONE OF THE BEST-KNOWN U.S. BEARS,** he is president of David W. Tice & Associates Inc., a Dallas investment research and management firm. It advises two mutual funds, Prudent Bear and Prudent Safe Harbor. The former is designed to profit from market declines, while the latter profits when the dollar falls in value.

According to Money magazine's December issue, the Prudent Bear was the country's top actively managed diversified mutual fund last year. It has had a three-year average return of nearly 32 percent. Tice's firm also is publisher of Behind the Numbers, an institutional research service that provides "sell ideas" to money managers. Tice recently spoke with Newsday's Pradnya Joshi.

**Q.** What is your strategy for investing in the current market climate?

**A.** We believe that the market is going lower. This is a secular bear market. It has a long way to run. As much as we would like there to be prosperity in the U.S., we see that the excesses and imbalances from this excess boom have got to be wrung out of the system.

**Q.** How long will this secular bear market last, and what are its causes?

**A.** The causes of it are excessive credit that's been created - where corporations and households took on massive amounts of debt. We partied hard, but now we will experience the hangover.

**Q.** So this will be protracted over several years?

**A.** Yes. There are a lot of people essentially looking at "numerology" and saying we can't have more than three years of a bear market and therefore the market's got to end up [this year]. That's preposterous because the [stock prices are being valued] at nearly 30 times earnings for the S&P. That's trailing earnings. You can't

really look at future earnings because you can't really predict what future earnings are going to be, and Wall Street [analysts have] done a notoriously bad job of doing that.

**Q.** How do you handle a short-term and long-term strategy in a bear market?

**A.** We think we should short [sell] stocks and long [buy] gold stocks. That's how we're playing it. On the short-term basis, it's just so tenuous given the war situation. Do we start bombing next week? A month from now? If it goes well, the market could rally for a while. If it doesn't go well, the market could crash. So we're trying to minimize volatility.

**Q.** Most people think volatility is a short-seller's best friend, isn't it?

**A.** Volatility hurts us. It hurts any portfolio manager, because if you lose 20 percent, you have to gain 25 percent just to make it back. It just chews you up.

**Q.** Is the gloom and doom out there a self-fulfilling prophecy?

**A.** There are definitely real fundamentals there. Our view on the market is comprised from three different elements. One is stock market history. Two is economic history. And thirdly, analysis of individual companies.

**Q.** Once the war is over, do you think the markets will turn positive?

**A.** We don't think so, because there are enough problems in the system with our excessive debt levels and our overcapacity in the system, our massive dependence upon foreign capital and our significant current-account deficit.

**Q.** Do you think short-sellers have gotten more respect now that we've had three years of a down market?

**A.** It's difficult to tell. Short-sellers - the name still connotes bad things for a lot of people because people misunderstand and think that short-sellers drive down stock prices. However, we can't sell short unless there's an uptick [in that stock], therefore we don't really drive prices down. We bears have been the ones who have alerted people to the potentials for these declines, and investors should have listened to us.

*David Tice is CEO of Prudent Bear Funds and PrudentBear.com.*



Recent Quotables posted at  
SwissAmerica.com

**39 ECONOMISTS  
AGREE ON SOMETHING  
TANGIBLE!**

**15)** "Gold looks strong. I see \$350-\$400 gold in the near future."

**LARRY KUDLOW**, Economist, CNBC Commentator

**16)** "Our economies continue as the economies of addiction... we will continue with the practice until we die or some dramatic circumstance balls us in our foolishness."

**IAN HODGE**, Author, BusinessReform.com

**17)** "Whenever you see a strong Christian culture, you see a capitalistic society. Capitalism is an outworking of Christianity. I am not talking about the economic system of capitalism in this case, but I am referring to an investment philosophy and lifestyle."

**JOE JOHNSON**, Editor, BusinessReform.com

**18)** "The World Gold Council (WGC) launch of a gold exchange traded fund (ETF) promises to revolutionize the gold market. Gold is the 'best kept secret' in investing, gold can go to \$1000 per oz. before its current bull move ends."

**JOHN HATHAWAY**, Touqueville.com

**19)** "Earnings reports, in my opinion, have been bogus as companies consistently seem to miraculously beat estimates by 1 penny."

**MARK LEIBOVIT**, VRTrader.com

**20)** "Ownership of gold is not about lust: it is about liberty of the individual. The gold standard is not a 'game': it is the embodiment of the principle 'pacta sunt servanda' (promises are made to be kept)."

**FERDINAND LIPS**, Fame.org/goldwars





## PANIC IS NEAR IF 'THE GOLD IS GONE'

By Kelly Patricia O Meara, INSIGHT

Gold. It's been called a barbarous relic, and those who focus on its historic role as a standard of value frequently are labeled "lunatic fringe." Given the recent highs in the gold market, it looks like the crazies have been having a hell of a year. With the stock market taking its third yearly loss, gold returned nearly 30 percent to investors, moving from \$255 an ounce to six-year highs of \$380.

Just about every analyst and "expert" on Wall Street willing to mention any of this has been quick to explain that the increase in the price of gold is due to impending war with Iraq. But hard-money analysts are arguing that should the United States go to war it will be of very little consequence to the price of gold -- a momentary blip -- because gold is a commodity and its price a matter of supply and demand.

The "lunatic fringe" long has argued that the price of gold was being manipulated by a "gold cartel" involving J.P. Morgan Chase, Citigroup, Deutsche Bank, Goldman Sachs, the Bank for International Settlements (BIS), the U.S. Treasury and the Federal Reserve, but that the manipulation had been sufficiently exposed to require that it be abandoned, producing the steady upward increase in the price of the shiny, yellow metal.

In fact the "gold bugs," as they're known, are so sure of their research that not only do they believe the price of gold will continue to climb, but many are expecting to see prices of \$800 to \$1,000 an ounce. Until recently, most in the gold and financial worlds scoffed at such a prediction, but last month the Bank of Portugal made an announcement that shocked those who credit official gold-reserve data and added fuel to the contention of the gold bugs that the "gold-cartel" manipulation is in meltdown. Read more articles by Kelly at [SwissAmerica.com](http://SwissAmerica.com)



## THE U.S. DOLLAR...

By RICHARD RUSSELL, Dow Theory Letters

# ACHILLES HEEL

This is a monthly chart of the Dollar Index.

This may be the most important single chart of the current market. Remember the dollar is the world's reserve currency. Every central bank in the world holds part of its reserves in dollars. Oil is bought in dollars. Gold is bought in dollars. A weak dollar is therefore the concern of almost everyone everywhere. Such is the importance of a reserve currency.

The path of the dollar on this monthly chart is clear enough. The Dollar Index topped out in January of 2002. It has been going down ever since. We see the initial big break, then the consolidation of June through November. In December the Dollar Index broke out of the consolidation to the downside.

The size of foreign holdings of dollars is incredibly high - approximately \$8,000 to \$9,000 billion. This compares to holdings of \$200 billion in the 1980s. It requires massive capital inflows to offset these holdings.

The dollar, in my opinion is the Achilles Heel of the whole US economic situation. One of the gauges of this situation is GOLD. That is why the study of the gold trend is so crucial here. The higher gold climbs, the less confident the market is of the dollar. Conversely, the lower the dollar, the more important it is to have a position in gold.

The US is now dealing with a budget deficit of at least \$400 billion plus a trade deficit of around \$500 billion. To finance these two horrendous deficits, it's going to take heavy "stealing" from the Social Security trust fund plus major infusion of new money via the Fed monetization of the debt.

All of this is clearly bearish for the dollar and bullish for gold. However, pressure on gold from the "inflationists" will continue. Rising gold prices, of course, points out the weakness in the dollar and the machinations of the Fed. For this reason, I see tough going for gold and the gold shares until the metal finally breaks loose from its manipulators and the gold bull market begins to really express itself.

In the meantime, I consider gold and gold shares in the "bargain" accumulation phase of the gold bull market. Sometime in the future we will look back at the current period and wonder why we didn't put a much larger share of our assets in gold.

Subscribers ask me, "How would gold do in a deflation?" With today's massive debt structure, this country just can't take a deflation. If deflationary forces enter the picture, the Fed will "take off the gloves" and do everything possible to stave it off. This will entail massive printing of dollars and possibly even buying of stocks. I believe the Fed will stop at nothing in an effort to ward off deflation.

As the international value of the dollar drops, investors will rush for the protection of gold. At that point, gold will move into its second phase, which will be marked by the wholesale entrance of the public into gold and gold shares.

Richard Russell has been the editor of highly esteemed [DowTheoryLetters.com](http://DowTheoryLetters.com) since 1958 (the oldest in the business) and celebrated his 79th birthday in 2003.





# THE KINDNESS OF STRANGERS

by Bill Bonner, Daily Reckoning

After a great and glorious binge - in the late '90s - of stock-buying and borrowing...lying and cheating...and living it up as though there would be no tomorrow, tomorrow came. The nation fell into a miserable slump, with crashing stocks, disappearing profits, recession...and titans of industry hauled off in hand cuffs.

Alan Greenspan's Fed decided it was time to put the nation into a 12-step recovery program.

Month after month, he cut rates, until there was not much left to cut. Shortest term dollar deposits earn only 1.25% interest...while the inflation rate is around 3%. In effect, the central bank is already giving money away.

And yet, where's the recovery? Corporate profits continued to fall in the last quarter, even faster than they did in the quarter preceding it. Bankruptcies, in the 3rd quarter, were rising at a double-digit rate. The holiday shopping season looks as though it might be grim. The number of homes in foreclosure is at a 30-year high. And revenue shortfalls among state governments are so bad that the governors called it the "worst budget crisis" since WWII.

"Lenders are flush," says a USA Today article. But it may be too late for the borrowers. The water is high and beginning to swirl. They "have so darned much debt that even at low rates it's hard to pay," reports USA Today.

"Debt hounds those at the edge," says a Chicago Tribune headline. Freddie Mac, chartered to spread the joy of debt to the multitudes, decided to turn the hounds loose on those in the middle, too - raising its limit on mortgages from \$300,700 to \$322,700. But now that Greenspan has completed his 12-step program...and real rates are well below zero, what next?

Ben Bernanke, one of the Federal Reserve's seven governors, whom we quoted yesterday, followed up by saying "The U.S. government has a technology called a printing press - or, today, its electronic equivalent - that allows [the Federal Reserve System] to produce as many U.S. dollars as it wishes at essentially no cost."

"There is virtually no meaningful limit to what we could inject [from the money supply] into the system, were it necessary," added the chairman.

Technically correct, for the Fed could always charter a fleet of helicopters and drop \$100 bills over lower Manhattan, but as a monetary policy, printing money is not without its drawbacks.



The essential requirement of money is that it be valuable, which requires that it be of limited supply. But that is also the essential problem with all managed currencies. Its managers may create more of it when it suits them, but never so much that the illusion of scarcity is destroyed.

The U.S. economy, we keep reminding ourselves, earns less than it spends. The difference is made up thanks to the kindness of strangers in foreign countries. If those foreigners ever begin to feel that the dollar is not what it is supposed to be, they will dump greenbacks in favor of other colors, say, the blue and pink of euro notes.

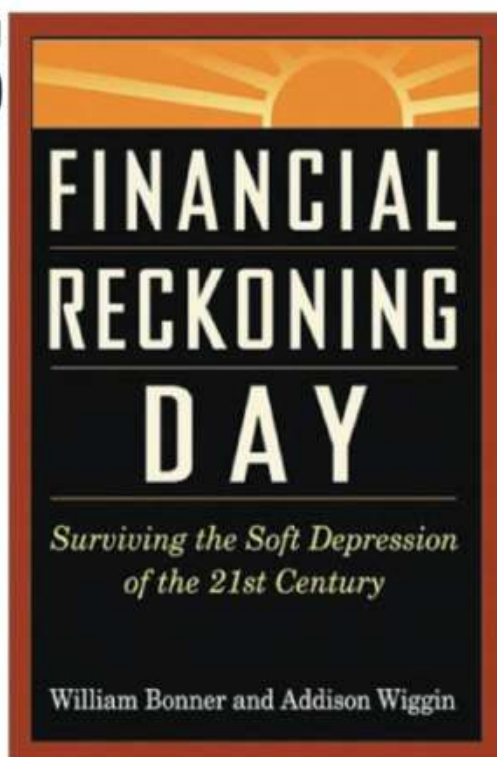
"What the U.S. owes to foreign countries it pays - at least in part," observed Charles de Gaulle in 1965, a full 37 years ahead of Greenspan and Bernanke, "with dollars it can simply issue if it wants to."

De Gaulle was first in line at the 'gold window' at the Fed, where he exchanged his dollars for gold and brought the world's monetary system crashing down. Nixon slammed shut the gold window and the price of gold began to move upward. Over the 12 years leading to the peak in January 1980, gold gained 30% per year - exceeding the return on stocks in any 12-year period in history.

Gold bugs were so excited by this that they bought - even as gold reached \$800...and regretted it for the next 22 years. Now, the price of gold moves up cautiously...the gold bugs have less money and more sense. Still, on the open market - if no longer at the gold window - the neo- de Gaulles of this world have a way to exchange their dollars for gold. Greenspan and Bernanke must be causing them to think about it.

Central bankers are as human as gold bugs; the thought must have occurred to them. If they can manage a currency, they can mismanage it too. When doubts arise about the real value of paper currencies, a lot of gold is a good thing to have.

BILL BONNER is the founder and president of Agora Publishing, one of the world's most successful consumer newsletter publishing companies, and the author of the free daily e-mail The Daily Reckoning. Mr. Bonner is the author, with Addison Wiggin, of "Financial Reckoning Day: Surviving The Soft Depression of The 21st Century" (John Wiley & Sons New York, London) due out in September, 2003.







Recent Quotables posted at  
SwissAmerica.com  
**39 ECONOMISTS  
AGREE ON SOMETHING  
TANGIBLE!**

**21)** "This is the greatest coin market in history ... auction prices are breaking all records as we are seeing the purity of collector coins returning to the market."

**KEVIN LIPTON**, Kevin Lipton Rare Coins

**22)** "Gold has become the color of hope for paralyzed investors in the past year."

**JOND, MARKMAN**, MoneyCentral.com

**23)** "Bear market rallies can evaporate quickly, or draw out for long periods. There is no real pattern."

**JOHN MAULDIN**, Frontlinethoughts.com

**24)** "I see gold over \$1,000 in the next few years."

**BILL MURPHY**, Lemetropolecafe.com

**25)** "Gold is the buy of a generation. Gold is in the '9th inning' of the bottoming process and my conservative price range is \$450-\$550, with an upside potential of \$800 plus!"

**WALTER MURPHY**, Chief Int'l Economist, Merrill Lynch

**26)** "With each pullback the metal gets stronger on the next leg up. That is what makes a bull market. A true bull market climbs a wall of worry."

**THOM OBRIEN**, Gold Market Letter

**27)** "Gold bugs have for years contended that the price of gold has been manipulated by bullion banks...it appears the central banks are indeed very much involved."

**KELLY PATRICIA O'MEARA**, Insight.com

**28)** "I continue to believe that a weaker dollar is exactly what a dysfunctional global economy needs."

**STEPHEN ROACH**, MorganStanley.com

# DEFINING DIVERSIFICATION

KFNN Interviews Craig Smith

RICK SMITH/KFNN & CRAIG SMITH/SATC

**Rick**-Good Morning, the name of this show is Business for Breakfast and I'm Rick Smith. Will 2003, usher in a new bull market on Wall Street? Or, will it look more like 1929? That's THE question being asked by our next guest, Craig Smith. Craig is President of Swiss America Trading Corporation. Swiss America is one of the most respected gold and U.S. rare coin brokerages in the United States. Craig is also the author of a new book entitled "Rediscovering Gold in the 21st Century". He's a regular guest on CNNfn, Bloomberg Money Show and right here on Business for Breakfast this morning. Craig Smith welcome to the show, thank you very much for joining us.

**Craig**-Thanks Rick it's great to be here.

**Rick**-Well Craig, I've been looking over some of your materials, you have a magazine out, and it seems like you've been advocating tangible assets that diversification since the day you started 20 years ago.

**Craig**-Yeah, well it's interesting how you define the term "diversification."

**Rick**-Right.

**Craig**-For 20 years, we've advocated that a portion of your money belongs to stocks bonds, cash and tangibles like gold and silver. Recently diversification means how much stock you have in Biotech, how much you have in manufacturing and how much you have in money markets. So, what we have told our clients for 20 years have a balanced portfolio. So, the people that listen did very well in the bull market, because a major portion of they're money was in stocks. But, during the difficult times, like we've just been through, the 10 to 20% that they invested in tangibles shined like a very bright light, in the midst of a lot of darkness. We believe that you don't put all your eggs in one basket and if you're going to own gold, make sure you have the right type of gold.

**Rick**-You feel there's three important questions that investors should be able to answer to make sure they're portfolio is truly diversified. What are those questions?

**Craig**-Well Rick, they're really simple, really basic if you think about it. 1) How long do you plan to hold your investments? This probably should be the first

question you ask yourself. 2) What level of return do you hope to achieve? What is a realistic rate of return today? If you're looking for a 50 or 60% return, I don't care what the market is, it's probably not realistic. More importantly, 3) what degree of risk are you prepared to accept? You know how it works Rick, the higher the risk the higher the return, the lower the risk the lower the return. And so, I'm concerned about in 2003. I hope 2001 and 2002 have been wake up calls for investors, that we reevaluate how realistic our exceptions of this market are. If they're like they were in the 90's, then I think we're going to be in for a terrible shock. That's why right now is the time to look at other alternatives to investments that are doing well.

Like, for an example, at your recent Financial Fest, we were talking to people about the classic head and shoulders bottom pattern that we see on the gold charts. You can't deny the facts and experts all over the world now are in agreement that gold is in the beginning phase of the new bull market -- after being dormant for the last 15 years.

**Rick**-Right.

**Craig**-And in our financial journal, The New Gold Rush!, people like Alison Beard from the London Financial Times, Richard Russell and Tom Calandra of CBSMarket

Watch have all written articles saying,

hey- don't overlook a very classic long term market in the case of tangibles, like gold. That's what we're all about Rick, but, I'll tell you what, if your listeners will give our officers a call, they can get our new financial journal by simply calling 1-800-289-2646. If you're truly serious about Rediscovering gold in the 21st century, we'll make a copy available.

**Rick**-So, if you want your free copy of the 30-page financial journal which covers everything from stocks to bonds to gold called "The New Gold Rush!" call Craig Smith or go to the web site, buycoin.com, and look for the book in bookstores called "Rediscovering Gold in the 21st Century." Craig Smith from Swiss America Trading thank you very much for joining us this morning.

**Craig**-Thanks Rick!





# GOLD: Good Time to BUY

by Mary Anne and Pamela Aden, Aden Forecast

Gold shot up in June reaching its February highs and it's been declining since then. But that's okay because if you haven't bought yet, or you want to add to your positions, the current weakness will likely be the last good buying opportunity for a long time to come. Gold's bull market is solid and it's poised to rise to new bull market highs before the year is over. In fact, for the first time in years both the technicals and the fundamentals are glittering brightly.

## FUNDAMENTAL STEPS IN PLACE

Most important is the U.S. dollar because it's the main world currency. Its ongoing decline has given gold a big boost over the last two years and we believe this will continue. The U.S. is swimming in debt. With a half trillion dollar budget deficit, an over half trillion dollar current account deficit, a slowing economy, lower taxes, low interest rates and more spending on the war on terrorism, it nearly guarantees an even weaker dollar.

Never in the history of the world has a currency been able to stay strong with its trade deficit at current levels without a serious decline following. Also, it's historical that a superpower expands their military might while servicing a huge debt and lowering taxes. The world sees this and some central banks have begun easing out of dollars. They know that guns, butter and debt are a deadly combination for the dollar.

The Fed is also concerned about the weak economy and deflation and it simply can't raise interest rates. This means the dollar's going to remain weak. In fact, the government has been talking down the dollar because a falling dollar is inflationary and it helps offset the deflationary pressures, so it's in their interest to keep the dollar weak. It now looks like the dollar's going to drop much further than anyone expects, which in turn will provide a very bullish backdrop for gold.

Gold rises during uncertain economic times. We all know that gold rises during inflationary times like in the 1970s. But it also rises during deflationary times because gold is the asset of last resort in a deflationary environment. We don't think it's a coincidence that gold bottomed in 1999-2001 just as the bubble burst from the good economic times of the 1990s, and today's uncertainty is providing an ideal backdrop for further gains.

The growing ease to buy gold around the world is another big plus. For decades, China severely restricted the buying and selling of gold. But it's been liberalizing since last October. Most important, starting June 1st, individuals can invest in gold by buying ingots or opening gold accounts at the bank. This is powerful, especially because the population is so large.

When India did the same in 1996, it quickly overtook the U.S.'s place as the world's largest consumer and China may be following.



The World Gold Council is also working to make gold easily available to investors. They helped set up a gold security on the Australian stock exchange, traded under the symbol GOLD. And New York is next.

A gold exchange traded fund was filed with the SEC and once it's approved, it'll mark the first time gold is traded like a stock on the NYSE. It'll be called the Equity Gold Trust under the symbol GLD. And making gold a readily available financial product will have a big impact on the price.

Central bank gold sales are over. They sold a lot of their gold at the bottom and they're unlikely to sell more. Forward selling by gold companies is also unwinding. Central bank sales and forward selling by the mining companies put a big damper on the gold price in the 1990s. But since this era is essentially over, it's good for gold because the lid is off.

## TECHNICAL STEPS IN PLACE TOO

The most important technical step in the big picture happened last December when gold shot above \$330. This marked the first time since 1979-80 that gold rose above its prior peak.

Chart 1 shows that the gold price moves in a 1-4 cyclical pattern. The #1's are the best gold rises, which are followed by the worst declines #2. The #3 rises are short and the #4 declines tend to fall to new lows. Gold's been rising in a #1 rise since February, 2001 (which was also the 8 year cycle low). Last December it rose clearly above its prior #3 peak for the first time in 22 years, which was a big step in the bull market.

Mary Anne and Pamela Aden are internationally known investment analysts and editors of The Aden Forecast, a market newsletter providing specific forecasts on gold, gold shares and other major markets. Visit [AdenForecast.com](http://AdenForecast.com)





## THE RELATIONSHIP OF BULLION TO U.S. RARE COINS

Dr. Fred Goldstein, SATC

Many people have the misconception that rising rare coin prices must coincide with escalating gold and silver bullion prices. Not so.

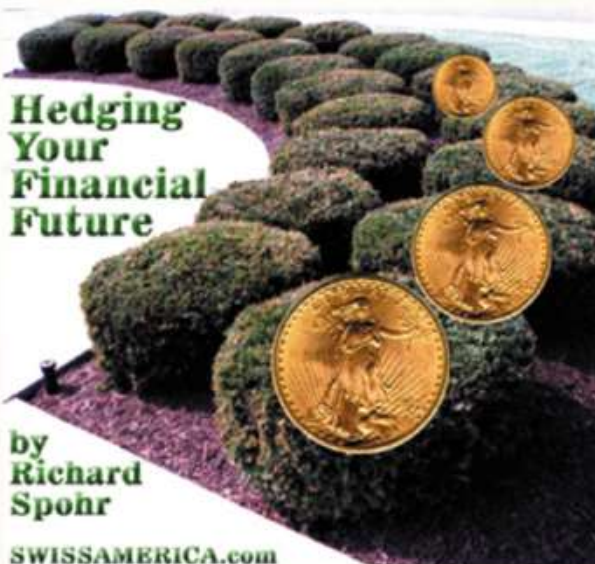
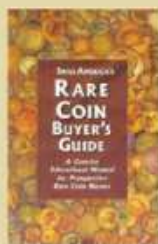
Over the last several years the gold price has dropped from \$400/oz. in 1996 to a low of \$252/oz. in 2000. Today the gold price is trending up around \$350/oz. During the 1999-2001 period (while the price of gold was dropping) the price of gem-quality U.S. Gold Commemorative coins appreciated over 30% per year. Modern silver gem proof singles also performed brilliantly 2001-2002.

The primary factors determining the pricing of U.S. rare coins are supply/demand and dealer inventories, rather than the price of the precious metals. Generic Double Eagle Liberty and Saint Gaudens Twenty Dollar Gold pieces (1850-1933) MS61-MS65 are considered bullion-related collectible coins. Generally speaking, as the price of gold rises the "extrinsic" or collectible value of the coin, as well as the "intrinsic" or metal value of the coin also rises.

Investors like the double play with these coins and the greater leverage to the gold price compared to one ounce bullion coins. Many Swiss America clients are presently using a simple "ratio trading strategy," involving the mathematical relationship between extrinsic and intrinsic values. The goal is to acquire the most ounces of gold as the ratio changes.

So, rare coin prices can rise while gold and silver bullion prices are dropping (e.g. 1987-1989, 1999-2001). In the event of dramatically rising precious metal prices, all rare gold and silver coins should increase sharply as during the 1976-1980 period.

SOURCE: U.S. RARE COIN BUYER'S GUIDE, 2000, Swiss America



In order to properly understand how to best position yourself for the next 3-5 years, you must have at least a basic understanding of how the worst bear market in the history of the United States has come about.

### STOCKS FOR THE LONG TERM?

The now infamous "Stocks for the Long Term", written by Wharton Business School professor Jeremy Siegel, claimed that as long as you held stocks - any stocks - for the long haul, you would do well. This fatally flawed theory was based on the idea that the Dow Jones Industrial Average was priced much higher in the mid-nineties than it was in the decades before. What Siegel failed to realize was the "Dow 30" was almost completely comprised of different stocks in the mid nineties than decades previous, just as it is now different than 1995.

After the financial press, advertisers and Wall Street firms ran with the "buy and hold" theory, the new investment vehicle became 401K. This marked the starting point of the great bull market of the late nineties.

Before 401K's, companies offered defined benefit plans to employee's with the vast majority of the funds invested in bonds where the funds were safe. Once the public controlled their funds it was just a matter of time until the commercials and print ads began to tempt Americans into the most aggressive mutual growth funds with astounding performance numbers.

### WHERE DID THE "NEW" ECONOMY GO?

The "New Economy" was upon us, with the advent of the Internet and the Telecommunications Act of 1996, and technology stocks became the new blue chip stocks to own. The public, buoyed on by the media then decided that the days of 'brick and mortar' stocks, which paid dividends, were over. The "New Economy" had arrived. Now it was Cisco, Microsoft, AOL, Global Crossing and of course Enron which formed a "diversified portfolio."

With electronic brokers offering lightening fast executions the investing public was able to buy stocks with the touch of a button. And buy stocks they did. When capital became scarce Wall Street again rode to the rescue with margin lending. In order to keep up with the Jones', investors borrowed vast sums of money to buy stocks on margin. There were no

**2002 WAS A TERRIBLE YEAR TO BE A STOCK INVESTOR (AS THE CHARTS BELOW ILLUSTRATE) BUT GOLD BULLION AND ESPECIALLY U.S. RARE GOLD COINS PROVED TO BE THE BEST HEDGE ON EARTH.**

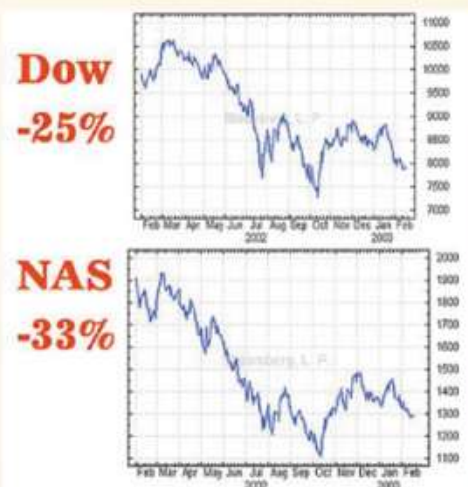
Wall Street managed to finish substantially lower for the third year in a row, in what may well be remembered as the largest con in the history of the world. Wall Street brokerages, investment bankers, corporate bond salesmen and the media created what appeared to a classic pyramid scheme, which drained over 8 trillion dollars from an estimated 55 million American investors.

traditional requirements either; if you could download a form and sign it you were in.

Mutual funds were the biggest beneficiaries of the 401k tidal wave. With new "Young Turk" managers in place, the mutual funds began chasing tech companies with 60, 70 or even 100 times earnings with reckless abandon. As record amounts of new money continued to roll in, fund managers simply pyramided into more and more shares at higher and higher prices.

### PARTY LIKE IT'S 1999?

By the end of 1998, the tech stock boom was peaking. Companies were coming out with IPO's opening in the teens and watching the stocks go to \$90 or higher by the close of trading the first day. But the Wall Street machine understood that prices were just too high to be sustained. It was getting to be time to make every last dime possible and prepare to ride the "golden parachute" out of dodge. This is when the Wall Street influenced television and print media began to put forth their "skills" in the form of analysts like the infamous



Jack Grubman who continued to issue "Buy" recommendations televised on CNBC, CNNfn, et al.

The Federal Reserve then provided the market with the largest increase in money supply of all time to counter the perceived Y2K financial risks. This was closely followed by





the rapid-fire increase in interest rates and tightening of the money supply once the Y2K crisis passed. This was the beginning of the "waterfall crash" which continues today.

After countless interest rate cuts, Greenspan and the Fed do not seem able to stop the market's momentum, which has destroyed stock accounts of an estimated 70 million Americans. The authors of the now infamous books, "Stocks For The Long Run" and "Dow 36,000" are now losing appearing on "bubble-vision" TV. Every so-called "investor" who came into the Nasdaq after 1997 has lost virtually every dime. The money now resides in the accounts of the very few, clever enough to rig the system.

## WHAT TO DO NOW

### 1) FACE FINANCIAL REALITIES:

Make a plan. Anytime you are planning your finances the first thing you should look at is not how much money you need in the future, but rather how much money you have now. That's right, you need an accurate picture of where you are today. What is left in your stock accounts, retirement funds and the amount of equity you have in your home. The final number is your actual net-worth. This is referred to as "liquid net-worth" in the financial planning community, but it is really your actual net-worth. Future earnings, growth on your real estate and any other forward-looking assets do not count, unless you are a corporate CEO who cooks the books.

Once you have come up with a net worth figure you have a starting point. It is amazing how many Americans have very little idea of how much they are worth. It sounds like a cliché, but you can never reach a goal without the first step and a solid plan or road map to guide you. This is what we have and will provide for our clients.

Your first priority is to protect what you have. We need to be assured that five or ten years from now, your net worth will be at least what it is today.

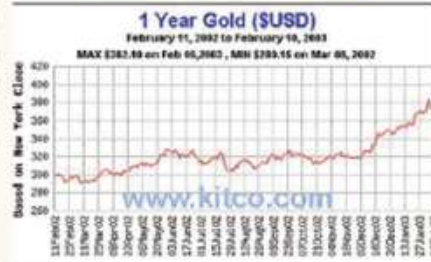
**2) HEDGING YOUR POSITION:** This is where owning gold comes in. One of the first things any educated gold Broker will explain to you is the concept of HEDGING. Simply put, you need an asset in your portfolio, which will rise when the other assets are falling.

If you owned a farm, you would be familiar with the idea of hedging your crop. You see, if you had 10,000 bushels of Soybeans in the field and could not harvest them until they matured in six months, you would have market risk in the interim. A commodity broker could initiate a position in the Futures market, which would make money if the price of Soybeans dropped, therefore offsetting your losses in the

field. What you have essentially done is lock out your risk. The same concept can be applied to your finances.

Taking a look at the tangible market performance in 2002 (see charts), illustrates perfectly how gold can be used to hedge your exposure to the equity, bond and real estate markets.

### Gold bullion +25%



### \$20 St. Gaudens +53% (MS-65)



### \$20 Liberty + 80% (MS-64)



Using the Dow as an example, let's say that you started the year with \$100k. Had you invested the entire amount in the Dow, you would have lost approximately \$24,000. If however, you had invested 35% of your \$100k or \$35,000 into Mint State 64 Twenty-Dollar Liberty gold coins you would have seen an increase of 80% or \$27,300 in your investment value. The idea here is very simple, by hedging your investment in the Dow with Gold, not only did you not lose any money, you actually came out ahead by \$4300.

That's why every American should hedge their investments. What you lose in the right hand, you make back in the left. Will Rogers once said, "I am more concerned with the return of my money than the return on my money."

Any type of investment portfolio can be hedged. It is simply a matter of accessing your net worth, categorizing your investments and implementing a plan to offset the downside risk the future may bring. Your particular situation may be quite complicated after listening to all of the so-called experts and

suffering through the worst bear market in the history of the United States. But that can change.

**3) PERCENTAGES OF GOLD:** Figuring out what percentage of your portfolio should be in gold will vary but, there is one absolute; a portion of your portfolio needs to be invested in good old-fashioned physical possession gold and silver coins. They are the best-kept secret in the investment world. That is why central banks and large investors all have a portion of their asset base in gold coins. It is the ultimate hedge against all types of financial ruin, man-made and otherwise.

**CONCLUSION:** Insanity is defined as "doing the same thing over and over expecting a different result." You must change something. Now that you understand the value of hedging, wouldn't it be a great time to hedge for the future?

Richard Spohr is a St. Acct. Rep for Swiss America. More articles are posted at [swissamerica.com](http://swissamerica.com).



Recent Quotables posted at  
[SwissAmerica.com](http://SwissAmerica.com)  
**39 ECONOMISTS  
AGREE ON SOMETHING  
TANGIBLE!**

**29) "Since 1913 and the founding of the Fed, the dollar has lost 95 percent of its value."**

**LEW ROCKWELL, Mises.org**

**30) "I decided that the potential big money was with the gold bull market rather than trying to 'beat the bear.' And that's where I am now."**

**RICHARD RUSSELL,  
Dowtheoryletters.com**

**31) "I look for gold to pass the \$400 mark very soon. And then? Toward \$500."**

**HARRY SCHULTZ, International Harry Schultz Letter**

**32) "Gold will trade at \$410 to \$416 in the very near future. I say this without any doubt in my mind."**

**JAMES SINCLAIR, jsmineset.com**

**33) "Gold has proved itself to be the ultimate contrarian bet against the market over the past three years."**

**STEPHEN SCHURR, TheStreet.com**

**34) "Bargains abound in gold coins -- from those in adequate supply to true market rarities. The downside is almost non-existent."**

**DR. STEVE SJUGGERUD,  
CBSMarketWatch**

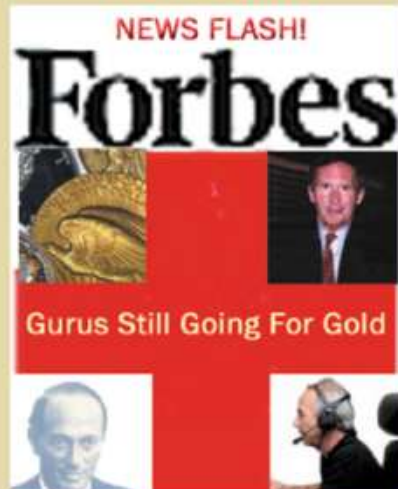
**35) "Money is the builder or destroyer of society. An honest money system brings prosperity to all citizens - willing to work."**

**CRAIG R. SMITH, SwissAmerica.com**

**36) "This is a secular bear market. It has a long way to run. The excesses and imbalances from the 90s excess boom have got to be wrung out of the system."**

**DAVID W. TICE, PrudentBear.com**





by John Dobosz, Forbes

NEW YORK - The greenback is down more than 5% since early April. Gold is trading near a two-month high. Is there life yet in gold's three-year run? Yes, say both resident goldbugs and more diversified gurus tracking the metal.

"With the dollar dropping like this, gold demand is growing and growing," writes Bill Murphy on his online forum, Le Metropole Café, a site popular with hardcore gold aficionados. "Pile an overbought and overvalued US stock market (the S&P 500 P/E is 30, double the historical average) on top of that. . .and you have a recipe for an explosive gold launch in the very near future--like any day," he adds

Another gold member, James Dines, editor of the Dines Letter, says that the Fed's fear of deflation has prompted a highly stimulative monetary policy. Dines says that the excess credit creation could even ignite "hyperinflation" that will eventually destroy the currency.

"Fedhead Greenspan is playing with fire, but whether he understands that, or is merely simplistically assuming a little inflation would help counteract a deflation, will be revealed in the fullness of time," writes Dines, whose portfolios were up on average 23% last year

Another gold-junkie, Tom O'Brien, editor of the Largo, Fla.-based Gold Report, trades both stocks and metals using technical analysis, recently bought a couple of cheaper gold equities: Vista Gold and Durban Roodepoort, with respective price targets of \$5.85 and \$2.88. O'Brien also bought Gold Fields with a two-month target of \$12.80 and Goldcorp, which he says should climb above \$12 "quickly."

SOURCE: Forbes.com

**re'al•ist**  
n. 1, one who tries to portray things as they are, not idealized 2, truth seeker

Optimist's and pessimists alike all agree that U.S. gold coins will add balance to a financial portfolio. Welcome to the era of common sense. Call for your COMPLIMENTARY COPY of THE NEW GOLD RUSH! Become a Realist!

**1-800-289-2646**  
swissamerica.com

The implicit message of the good Dr. is that if we choose to, we can talk ourselves out of almost any funk - personal or stock market based - IF we will just 'accentuate the positive and eliminate the negative,' as the song says.

Sounds logical, right? But in reality, it is just another ploy by the Wall Street 'perma-bulls' and the manipulated mass media to pump up the investor, who will then pump up the stock market. (Remember whose future depends upon ratings... which according to the latest poll are dropping (CBNC - 25%) as this bear market deepens.

What ever happened to realism? That balance between chronic optimism and chronic pessimism. The Bible says "there is a time for EVERY thing under the sun"...but does that include stock market corrections and recessions?

Not according to the featured Dr. on FOX. She wants us to believe that the good times can just keep on rolling if we would all just think happy thoughts.

Imagine if your Dr. were to tell you that you are facing a major health crisis unless you immediately changed your bad habits. According to the Dr., you should greet this bad news by giving yourself a pep talk, right? Wrong. Instead you should take his sober warning seriously and then take some decisive action to address the crisis.

Bear markets and recessions are just that, a reality check on the growing myth of perpetual prosperity is a birthright that Americans have come to belief over the last 2-3 generations.

# OPTIMISM VS. REALISM

by David Bradshaw, Idea Factory Press

*"I know of no other country where love of money has such a grip on men's hearts. Despotism may govern without faith, but liberty cannot."*

Alexis de Tocqueville, Democracy in America

Recently FOX News featured a psychologist attempting to help investors overcome their bearish stock market sentiment.

The Dr. prescribed four steps to help avoid financial stress:

- 1) Always find the positive side of any crisis (even 9-11)
- 2) Always be an optimist (read: bullish on stocks)
- 3) Avoid pessimists (read: bearishness on stocks)
- 4) Give yourself daily "pep talks" (no matter how bad it gets)

So, bears of the world, stand up on your hind feet and take a bow, for without your realism or calls for more economic accountability and reasonable market valuation, the bulls will merely postpone the laws of gravity by releasing yet another market bubble into the air.

Regarding the media bias against gold... it is becoming ever more obvious, that the mass media does not want any help advice from the tangible asset advocates about how to protect your wealth with gold for one major reason: because gold generally moves contrary to the stock market.

That is perhaps the best reason that you should take action now... because by the time gold coins make the cover of TIME, gold will likely have already reached a new market top.

## HURRY UP AND WAIT

This familiar military slogan takes on new meaning every day for anxious investors who are growing weary of a protracted bear market in equities, now in it's fourth year.

Investing, like war, requires patience and confidence -- both of which are scarce among American investors today, smitten by the roaring 1990s, which required no patience and lots of misplaced confidence.

Not so for the contrarian investor who has diversified assets widely and decided that instead of being in a hurry -- it's now time to slow down and act wisely.

(Continued on Page 26)





# GOLD AND ECONOMIC FREEDOM

by Alan Greenspan

An almost hysterical antagonism toward the gold standard is one issue which unites statists of all persuasions. They seem to sense—perhaps more clearly and subtly than many consistent defenders of laissez-faire—that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other.

In order to understand the source of their antagonism, it is necessary first to understand the specific role of gold in a free society.

Money is the common denominator of all economic transactions. It is that commodity which serves as a medium of exchange, is universally acceptable to all participants in an exchange economy as payment for their goods or services, and can, therefore, be used as a standard of market value and as a store of value, i.e., as a means of saving.

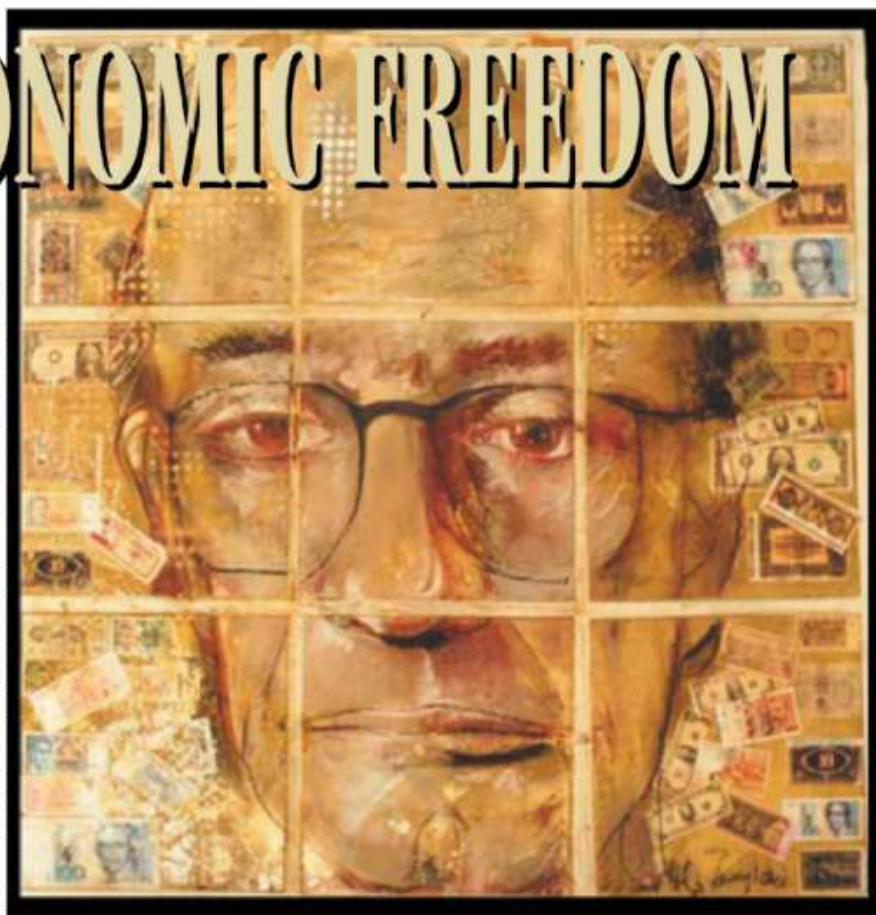
The existence of such a commodity is a precondition of a division of labor economy. If men did not have some commodity of objective value which was generally acceptable as money, they would have to resort to primitive barter or be forced to live on self-sufficient farms and forgo the inestimable advantages of specialization. If men had no means to store value, i.e., to save, neither long-range planning nor exchange would be possible.

What medium of exchange will be acceptable to all participants in an economy is not determined arbitrarily. First, the medium of exchange should be durable. In a primitive society of meager wealth, wheat might be sufficiently durable to serve as a medium, since all exchanges would occur only during and immediately after the harvest, leaving no value-surplus to store. But where store-of-value considerations are important, as they are in richer, more civilized societies, the medium of exchange must be a durable commodity, usually a metal. A metal is generally chosen because it is homogeneous and divisible: every unit is the same as every other and it can be blended or formed in any quantity. Precious jewels, for example, are neither homogeneous nor divisible. More important, the

commodity chosen as a medium must be a luxury. Human desires for luxuries are unlimited and, therefore, luxury goods are always in demand and will always be acceptable. Wheat is a luxury in underfed civilizations, but not in a prosperous society. Cigarettes ordinarily would not serve as money, but they did in post-World War II Europe where they were considered a luxury. The term "luxury good" implies scarcity and high unit value. Having a high unit value, such a good is easily portable; for instance, an ounce of gold is worth a half-ton of pig iron.

In the early stages of a developing money economy, several media of exchange might be used, since a wide variety of commodities would fulfill the foregoing conditions. However, one of the commodities will gradually displace all others, by being more widely acceptable. Preferences on what to hold as a store of value, will shift to the most widely acceptable commodity, which, in turn, will make it still more acceptable. The shift is progressive until that commodity becomes the sole medium of exchange. The use of a single medium is highly advantageous for the same reasons that a money economy is superior to a barter economy: it makes exchanges possible on an incalculably wider scale.

Whether the single medium is gold, silver, seashells, cattle, or tobacco is optional, depending on the context and development of a given economy. In fact, all have been employed, at various times, as media of exchange. Even in the



present century, two major commodities, gold and silver, have been used as international media of exchange, with gold becoming the predominant one. Gold, having both artistic and functional uses and being relatively scarce, has significant advantages over all other media of exchange. Since the beginning of World War I, it has been virtually the sole international standard of exchange. If all goods and services were to be paid for in gold, large payments would be difficult to execute and this would tend to limit the extent of a society's divisions of labor and specialization. Thus a logical extension of the creation of a medium of exchange is the development of a banking system and credit instruments (bank notes and deposits) which act as a substitute for, but are convertible into, gold.

A free banking system based on gold is able to extend credit and thus to create bank notes (currency) and deposits, according to the production requirements of the economy. Individual owners of gold are induced, by payments of interest, to deposit their gold in a bank (against which they can draw checks). But since it is rarely the case that all depositors want to withdraw all their gold at the same time, the banker need keep only a fraction of his total deposits in gold as reserves. This enables the banker to loan out more than the amount of his gold deposits (which means that he holds claims to gold rather than gold as security of his deposits). But the amount of loans





which he can afford to make is not arbitrary: he has to gauge it in relation to his reserves and to the status of his investments.

When banks loan money to finance productive and profitable endeavors, the loans are paid off rapidly and bank credit continues to be generally available. But when the business ventures financed by bank credit are less profitable and slow to pay off, bankers soon find that their loans outstanding are excessive relative to their gold reserves, and they begin to curtail new lending, usually by charging higher interest rates. This tends to restrict the financing of new ventures and requires the existing borrowers to improve their profitability before they can obtain credit for further expansion. Thus, under the gold standard, a free banking system stands as the protector of an economy's stability and balanced growth.

When gold is accepted as the medium of exchange by most or all nations, an unhampered free international gold standard serves to foster a world-wide division of labor and the broadest international trade. Even though the units of exchange (the dollar, the pound, the franc, etc.) differ from country to country, when all are defined in terms of gold the economies of the different countries act as one -- so long as there are no restraints on trade or on the movement of capital. Credit, interest rates, and prices tend to follow similar patterns in all countries. For example, if banks in one country extend credit too liberally,

interest rates in that country will tend to fall, inducing depositors to shift their gold to higher-interest paying banks in other countries. This will immediately cause a shortage of bank reserves in the "easy money" country, inducing tighter credit standards and a return to competitively higher interest rates again.

A fully free banking system and fully consistent gold standard have not as yet been achieved. But prior to World War I, the banking system in the United States (and in most of the world) was based on gold and even though governments intervened occasionally, banking was more free than controlled. Periodically, as a result of overly rapid credit expansion, banks became loaned up to the limit of their gold reserves, interest rates rose sharply, new credit was cut off, and the economy went into a sharp, but short-lived recession. (Compared with the depressions of 1920 and 1932, the pre-World War I business declines were mild indeed.) It was limited gold reserves that stopped the unbalanced expansions of business activity, before they could develop into the post-World War I type of disaster. The readjustment periods were short and the economies quickly reestablished a sound basis to resume expansion.

But the process of cure was misdiagnosed as the disease: if shortage of bank reserves was causing a business decline--argued economic interventionists -- why not find a way of supplying increased reserves to the banks so they never need

be short! If banks can continue to loan money indefinitely -- it was claimed -- there need never be any slumps in business. And so the Federal Reserve System was organized in 1913. It consisted of twelve regional Federal Reserve banks nominally owned by private bankers, but in fact government sponsored, controlled, and supported. Credit extended by these banks is in practice (though not legally) backed by the taxing power of the federal government. Technically, we remained on the gold standard; individuals were still free to own gold, and gold continued to be used as bank reserves. But now, in addition to gold, credit extended by the Federal Reserve banks ("paper reserves") could serve as legal tender to pay depositors.

When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve's attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain's gold loss and avoid the political embarrassment of having to raise interest rates.

The "Fed" succeeded; it stopped the gold loss, but it nearly destroyed the economies of the world in the process. The excess credit which the Fed pumped into the economy spilled over into the stock market -- triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to sop up the excess reserves and finally succeeded in braking the boom. But it was too late: by 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world-wide series of bank





failures. The world economies plunged into the Great Depression of the 1930's. With a logic reminiscent of a generation earlier, statisticians argued that the gold standard was largely to blame for the credit debacle which led to the Great Depression. If the gold standard had not existed, they argued, Britain's abandonment of gold payments in 1931 would not have caused the failure of banks all over the world. (The irony was that since 1913, we had been, not on a gold standard, but on what may be termed "a mixed gold standard"; yet it is gold that took the blame.) But the opposition to the gold standard in any form - from a growing number of welfare-state advocates -- was prompted by a much subtler insight: the realization that the gold standard is incompatible with chronic deficit spending (the hallmark of the welfare state). Stripped of its academic jargon, the welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare schemes. A substantial part of the confiscation is effected by taxation. But the welfare statisticians were quick to recognize that if they wished to retain political power, the amount of taxation had to be limited and they had to resort to programs of massive deficit spending, i.e., they had to borrow money, by issuing government bonds, to finance welfare expenditures on a large scale.

Under a gold standard, the amount of credit that an economy can support is determined by the economy's tangible assets, since every credit instrument is ultimately a claim on some tangible asset. But government bonds are not backed by tangible wealth, only by the government's promise to pay out of future tax revenues, and cannot easily be absorbed by the financial markets. A large volume of new government bonds can be sold to the public only at progressively higher interest rates. Thus, government deficit spending under a gold standard is severely limited. The abandonment of the gold standard made it possible for the welfare statisticians to use the banking system as a means to an unlimited expansion of credit. They have created paper reserves in the

form of government bonds which -- through a complex series of steps -- the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., as the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims

outstanding than real assets. The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other

purposes with the money proceeds of the government bonds financed by bank credit expansion.

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all his bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

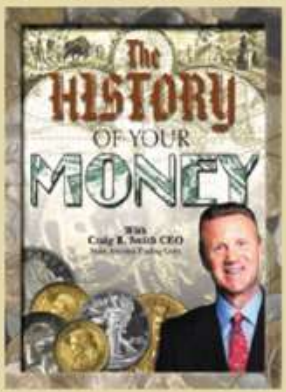
This is the shabby secret of the welfare statisticians' tirades against gold. Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the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

Alan Greenspan, 1966 Essay



# CELEBRITY COIN COLLECTORS

Today's numismatist (or coin collector) is in the company of kings, presidents and other famous figures. Kings, queens, even Popes have all been captivated by gold and silver coins over the centuries.



In fact, many Hollywood stars have taken a shine to numismatics too. Like actor Buddy Epsen (Jed Clampett to millions), and James Earl Jones (the voice of Darth Vader). Angie Dickinson and Penny Marshall are also both avid coin collectors.

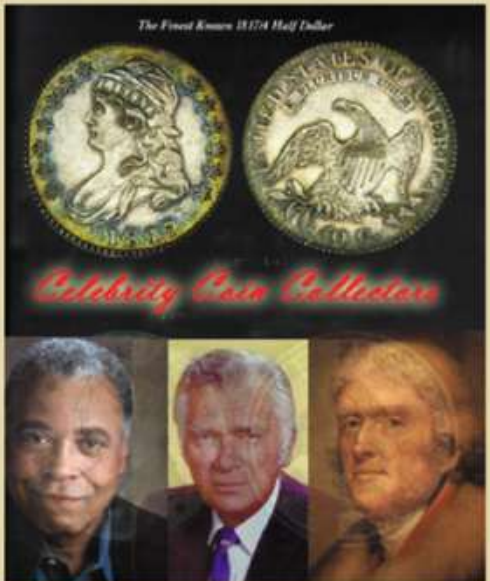
Many American Presidents have also been big coin collectors, like Thomas Jefferson (who collected early Roman coins), Andrew Jackson and Franklin D. Roosevelt. The list goes on...

The next time you take a pill made by Lilly corporation... may it remind you that Josiah Lilly has a whole wing in his castle dedicated to coin collecting.

No wonder coin collecting is becoming more than just a hobby for millions of Americans! U.S. rare coins offer history, beauty AND financial protection, privacy and profit potential!

Yes, coin collectors truly are in the company of kings, figuratively AND literally. You don't have to build a new wing onto YOUR castle to get started, but I do recommend getting a little education before you invest! Let's learn from history - to better prepare our families and our finances for the future!\*

-Craig R. Smith  
The History of Your Money, hosted by Craig R. Smith is a 2-minute daily radio feature airing nationwide.







## How to Purchase Gold & Silver from Swiss America

### 1. Strategy

Your Swiss America Broker can help you design a tangible asset strategy using certified U.S. gold and silver coins.

### 2. Funding

Once you have chosen your coins and know the exact amount, have your bank transfer the funds to our Client Purchase or Product Sales Account as follows:

#### Numismatic Purchases

Wells Fargo Bank

3402 W. Bell Road

Phoenix, AZ 85053

ABA# 1210-002-48

Client Purchase Account

#4159-531235

For the account of SATC

For further credit to: (your name)

Attention: (your broker's name)

#### Bullion Purchases

Wells Fargo Bank

12641 N. Tatum Blvd.

Phoenix, AZ 85052

ABA# 1210-002-48

Product Sales Account

#4945-000826

For the account of SAPS

For further credit to: (your name)

Attention: (your broker's name)

### 3. Lock-In

Your broker will walk you through our lock-in procedure with our trading desk.

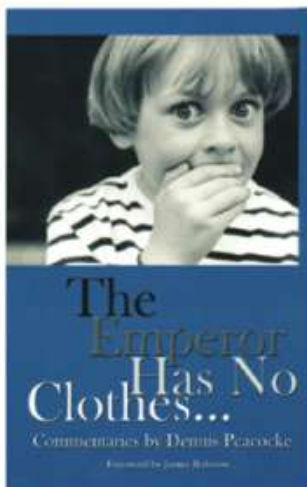
This guarantees price and availability of your coins.

### 4. Shipping

Your purchases will be shipped by Registered, Insured U.S. Mail within 7-21 days.

### 5. Service

Your broker is available between 8 AM and 6 PM (MST) Monday through Friday to answer your questions and provide you with periodic updates of your portfolio and market movement.



# THE GREAT DEBATE

by Dennis Peacocke, Strategic Christian Resources  
**The Most Important Thing That Must Come from This War: The Great Debate**

**Any war, by definition and result, is full of human tragedy. The current Gulf War is no exception. It is, and will be, full of human pain and heart-rending suffering. War is the last resort of human**

incorporates and transcends them—it is about history pushing to have the great debate we have put off for so long, to all our hurt.

Whether it be caused by cowardice, stupidity, "spiritual warfare," or all of the above, the modern world is a collective stomach full of massive indigestion, periodically belching, but as yet unable to throw up all the turmoil and confusion within it. We desperately need a release and a convulsion, and may God grant us in His mercy this "gift" out of the current conflict. We need to put on the table and talk about a host of core issues which until this point largely have been controlled and "finessed" by the powers that be and the rhetoric which guarantees confusion because it plays to media ratings and the current climate of political correctness.

Trapped in the trenches of the current left-right political game, unaware or unwilling to disclose people's basic assumptions or presuppositions about the nature of life and reality behind their arguments, we continue to be victimized by a parade of superficiality, bromides, and playing-to-the-crowd analysis. I say, may this war serve us all by making the deaths on both sides of the battlefield carry true meaning. Let's talk. Here are just a few of the major issues we must carry to the national and international discussion.

dialogue to resolve different visions of life and self-interest. The best that can be hoped for from it is that some transcendent values will be clarified through it that will make peace longer and more meaningful. Failing that, if this values clarification does not happen, war is simply hell unleashed on earth.

In this war, some would say, for multiple reasons, that the most important thing is the removal of Saddam Hussein. Some would say that it is about limiting the weapons of mass destruction. Some would say it is a definitive step in the war against terrorism. Others would say that it is "really" about greed for future economic advantage or protecting current oil contracts involving the United States, France, and others. The old left coalition says it's about U.S. imperialism and its linkage to a host of other fatal flaws in the American Dream. I say, while it touches all these things, it is, at bottom, about something that both

## 12 Important Questions

1) Does life have moral or spiritual absolutes and, if so, what are they? Is a commitment to no absolutes in itself an absolute?

2) What does the word "freedom" mean?

3) In what way are all people "equal" and if they are, does that mean equal in terms of "rights" and "responsibilities"?

4) Do nations have the right to govern themselves or is a "one-world international government" the goal toward which humanity should strive?

5) Is the United Nations or the European Union an unstated, but hoped for, step in the direction of "one-world"?

6) Are the poor always "right" and "oppressed" and in poverty because they are victims of the "rich"? What causes poverty?

7) Why are the American universities and the American media so predominantly filled with those of the "political left" persuasion, as virtually all studies have shown?

8) Is capitalism inherently flawed and evil?

9) Can and does racism go both ways, and since it is evil, how is it recognized, repented for, and eradicated?

10) How are jobs created, and what do we do to stimulate private investment to help create them?

11) For Americans, when will we say "enough" to being the world's whipping boy for all that is wrong on the planet?

12) For Americans, when will we see that our cultural invasion of the rest of the world, with the attendant assumption that "our ways are best for everyone," will continue to plague us until it is acknowledged, reviewed, and repented for?

That list would make a good start. Or maybe we would all rather publicly play games, live in platitudes, and head toward bigger wars? That is the bottom line.

Dennis Peacocke is the author of *The Emperor Has No Clothes*, \$9.95. GoStrategic.org





# CAPITALISM VS CONSUMERISM

Joe Johnson, Business Reform

## Unfortunately, for many, Christian and investing don't go together.

Many so-called Christian investors and financial counselors just don't know what they are talking about when it comes to investing, especially within the context of the proper Christian life. We are here to correct that. Capitalist vs. Consumerist Many Christians struggle with this whole issue of wealth, but for a proper biblical perspective, I recommend our Wealth issue (Jan/Feb 2001).

Most would say wealth is not evil, per se, but we shouldn't pursue it or get that caught-up in it. We shouldn't, in essence, be materialistic. This so-called Christian concept couldn't be further from the biblical truth. God, in fact, throughout the whole Bible, encourages us to attain wealth. Jesus Himself was probably one of the most predominant capitalistic teachers in history. To get an idea of Jesus' philosophy on capitalism, read Matthew 25:14-30.

Whenever you see a strong Christian culture, you see a capitalistic society. Capitalism is an outworking of Christianity. I am not talking about the economic system of capitalism in this case, but I am referring to an investment philosophy and lifestyle. A capitalist is someone who simply creates capital. They forgo present pleasures to accumulate wealth for future purposes.

The opposite of a capitalist is a decapitalist, or what I call a consumerist. Such a person does the exact opposite by forgoing future income for present pleasures. That's the basic economic problem with consumer debt. You buy now, so you can enjoy present luxuries, but you pay later, which means forgoing future income. Investing, on the other hand, creates a situation in which you have the money, but you would rather not consume it now, so you can have more in the future.

Christianity and even more specifically, Puritanism has furthered capitalism (growth of resources) more than any other faith. And as the Christian influence erodes, so does capital. For example, since the 1930's, America, beginning with our government's embracing of Keynesian economics, has adopted the philosophy of consumerism, which instructs that the more we spend, the more our economy grows. This lie is still being preached today; we hear continuously that consumer spending is good for the economy.

In Keynesian economics, the only way you can increase consumer spending is by consumer debt or spending your savings which is nothing else than decapitalism. In the case of debt, this methodology works until you have to pay the bill. Eventually, however, it comes crashing down, a result that John Keynes was well aware of. America has not yet had to pay the bill. Biblical economics, however, teaches us that the key to a strong economy is productive growth (capital creation) which means that instead of spending, one should be always investing in productive ventures, then living off the returns while always increasing capital. Capitalism is then a fruit of Christianity, where consumerism is a product of anti-Christian thinking.

## Capital Cash Flow

What does all this mean to you as a Christian investor? It means that you need to become a Christian capitalist. It does not mean that you don't enjoy present pleasures, but it does mean that you live within your means after your tithe to God and increase your capital investments. The more your capital investments grow, the more your tithe grows, and the more your standard of living can grow.

The most basic Christian strategy is that you must always be growing your capital from year to year, month to month, and day to day. The sooner you start this, the easier it will become. Your goal should be to invest in the most capital productive investments as possible and consume as little as possible until you get this capital growth trend going. As a visual aid, the following chart shows the continuum of consumable items to capital creation investments.

The farther you move to the right, the greater the creation of capital. The farther left you go, the greater the destruction of capital. The goal for the Christian capitalist is to go as far to the right of this continuum as possible.

Small businesses are, by far, the biggest creator of capital, while eating food is one of the biggest consumers of capital. One minute it is there, the next it's gone. Investing in yourself and your business education can also help you become a much better investor or capital creator. While stocks do create capital, their benefits are very limited because buying stock is like going to buy something at a retail store (publicly traded company), where you compete with a ton of other buyers who bid-up the price, versus buying wholesale (private ownership) where earnings are the key. Buying stock is less about value and much more about investor psychology, which essential distills to how much confidence consumers have in the market at any given time.

Where most people get confused is how they view their homes. So, here is a free investing tip: Your home is a horrible investment. Sure it doesn't get







consumed like a vacation or depreciate like a car but those aren't investments. Instead, they are all expenses, and so is a house. A home maintains its value and even appreciates in a lot of communities, but it does not create capital and, therefore, does not give solid returns like a business does.

If you really want to get your capital creating more capital for you, sell your house and then rent. Take whatever equity you had and put it towards investing in a small business. If you don't own a house yet, hold off and put all your money towards a small business. In fact, if you do this, at the end of 30 years you will have at least twice or three times (conservatively, with 10% growth) as much wealth as someone who put all their money in their home.

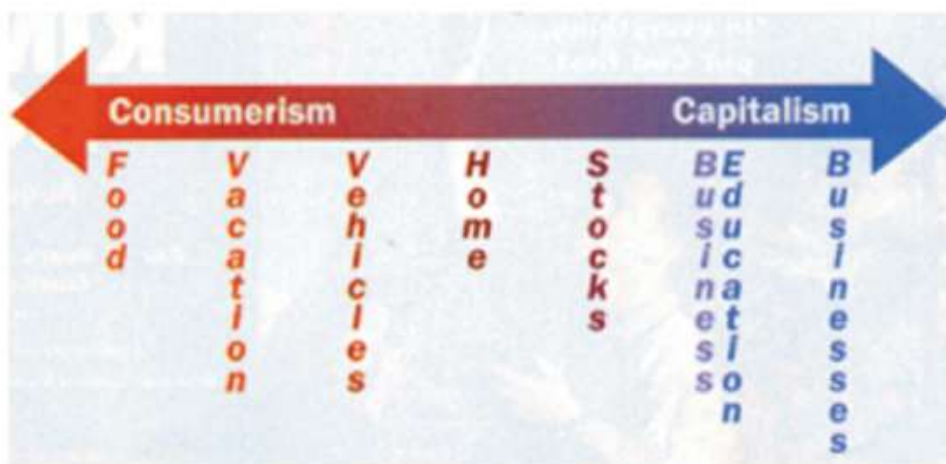
Most people think this investing strategy is crazy and if you are one of them, well that's the kind of thinking that will keep you from being a great Christian capitalist, or at least as great a capitalist as you could have been. The Bible tells us to first build your business, then build your house (Prov. 24:27). We usually like to do the opposite.

The key is cash flow. Let's say you start a business today with only a few thousand dollars; after a few years that business, annually, should be making profits after all expenses, including owner's salaries more than your initial investment. Instead of taking that profit to buy a house or spend on yourself, use it to reinvest in your business if you are experiencing rapid growth, or a different business if you feel it wisest to diversify at that point. Eventually, you will have so much cash flow coming in that you will be able to buy a new house every year. Look at this chart to see what I am talking about.

### Stages of a Christian Capitalist

It will take some time and sacrifice to become a successful Christian capitalist, but eventually you will get there. In the meantime, you will have four stages that you will need to go through in order to become successful:

1. You need to learn how to manage yourself in order for you to become productive by producing capital through your labor (working for someone while developing your skills, for example).
2. You need to become a steward by managing others for others. This kind of stewardship happens when you go from being a laborer to being manager for someone else. Having developed self-managing skills, you now take steps to learn how to manage others.



3. Then, you start being rewarded more for your management skills by now managing others for yourself and others as you start your own business or buy part of the business for which you are working.

4. Eventually, you will have more capital than you can effectively manage yourself through your business, so you will need to invest in other businesses by using other good stewards who are still on the second level. By then, you will have your business skills so fine tuned that you will know exactly what businesses to invest in and what businesses to stay away from.

### Conclusion

So, as you can see in this chart, it's not that difficult to become a successful Christian capitalist. You just need to understand business, biblically, and then be disciplined to invest in or start small businesses.

Remember, you need to invest in businesses that produce cash flow and consume a lot less than the capital you create a situation that will allow you to consume, create, and give much more later on.

If you are not currently successful at creating capital, start working through the phases of a Christian capitalist toward your ultimate goal of being a great investor in other businesses. Master level one, which most people never do, then

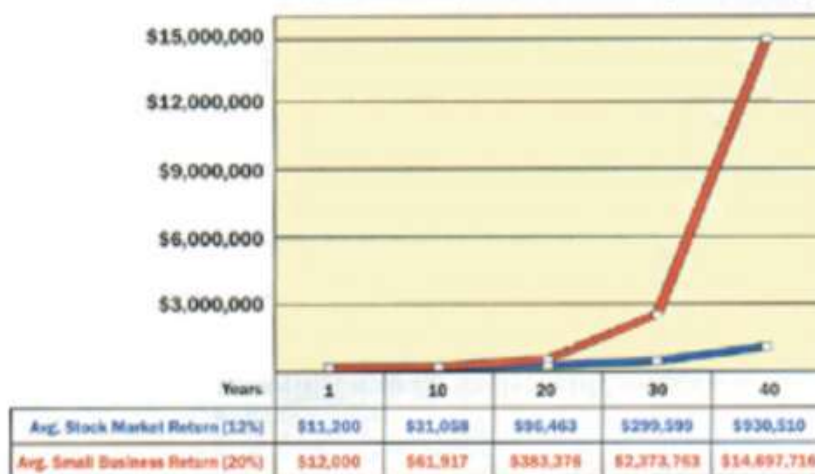
level two, then level three, and once you do this, you will easily be able to master level four. Helping you through this journey is exactly what Business Reform is all about.

This world needs a lot more good Christian capitalists and philanthropists. I hope that our new investing section will better serve you, so you can create much more capital for the glory of God!

Joe Johnson is editor of Business Reform magazine, online at [Businessreform.com](http://Businessreform.com).

### Small Business vs. Stock Market \$10,000 Initial Investment

Investment value of \$10,000 initial investment compounded annually





## BY







# FED VS. DEFLATION. WHO WILL WIN?

By Martin Weiss, PhD, SafeMoneyReport.com

PALM BEACH GARDENS, Fla. (WeissRatings) -- We are now witnessing one of the greatest economic battles of all time. On the one side is the powerful US government, mobilizing every economic weapon at its disposal - the 13th interest rate cut, massive federal deficits, even a de facto devaluation of the US dollar.

On the other side is one of the most feared of all social and economic forces -- deflation -- falling prices, wages, and asset values. In the past half millennium, deflation has typically reared its ugly head only once or twice every 100 years. It's a rare phenomenon.

## Problem

Each time deflation comes, governments naively believe they can stop its advance. The less experience they have with deflation, the more they try to fight it; and the more they fight it, the more they prolong the agony.

Right now, we have clear signs of deflation in the U.S. and Germany. We have four years of deflation in Japan, despite near-zero interest rates. And we see China, a \$1-trillion economy, exporting wave after wave of deflation to Asia and the West.

That's the three largest economies in the world -- plus the most populous nation -- all threatened by deflation. Meanwhile, nearly everyone in Washington and on Wall Street insists that "a little deflation" won't hurt us. I have news for them: In a high-debt economy like ours, having "a little deflation" is no more likely than being "a little pregnant." Once deflation begins, it can snowball in a series of vicious cycles:

**Vicious cycle #1** Falling wages! When companies cut prices, they also cut revenues. The less they charge, the less they make. To stay alive, they have to cut their own costs.

**Vicious cycle #2** Consumers will cut spending. The more prices fall, the more consumers postpone purchases in anticipation of lower prices to come. And the longer they delay spending, the more manufacturers and retailers must slash prices to attract new business.

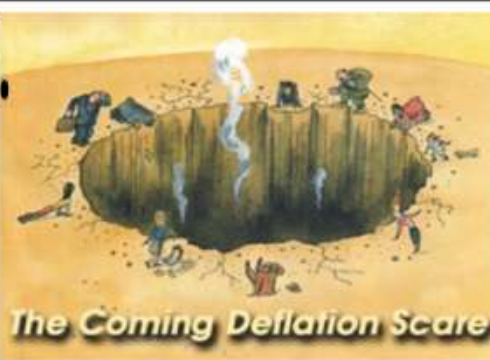
**Vicious cycle #3** Plummeting prices mean disappearing profits. When a company is forced to slash its prices and it can't increase its sales volume, there's only one possible outcome: Its profit margins are crushed, forcing still more price cuts.

**Vicious cycle #4** States and cities slash spending. Forty-nine of the 50 states have passed laws that force them to balance their budgets, regardless of the economic consequences. And right now, the nation's states -- and cities -- are being hit with deflation below the belt: Their welfare costs are rising. Their tax revenues are falling. And their deficits are going through the roof.

The states alone are facing budget deficits of some \$159 billion -- \$79 billion for the current fiscal year that ends June 30, and another \$80 billion for 2004. These figures are in addition to the \$50 billion funding gap states faced last year when they passed their 2003 budgets.

**Problem:** The more they cut, the more they hurt the local economy, forcing still more cuts. Most dangerous vicious cycle of all When deflation collides with debt. Debt by itself does not kill an economy. Deflation by itself is not necessarily a killer either. It's when you put the two together that the big danger arises. The more incomes fall, the harder it is for companies and consumers to pay their debts. The more the debts go bad, the more incomes fall. Worse, they sell assets at fire-sale prices to avoid bankruptcy ... or they file for bankruptcy and then have the fire sales. This drives the value of nearly all assets down and makes it still harder to pay debts.

**My advice** **Step 1.** Use the latest stock market rally as a selling opportunity. **Step 2.** For your savings, do your best to avoid any financial institution that's shaky. **Step 3.** Get rid of as much debt as you can, as fast as you can. **Step 4.** Most important, build cash!



# CONFLICTING OPINIONS

By John Mauldin, FrontlineThoughts.com

## What can we make of the huge variations in economic predictions by quite reasonable analysts?

I am not talking about market cheerleaders or professional bears, but those who simply try to sort out the ying and yang of the economy, with no axe to grind. There are those who see the economy recovering sharply and those who are clearly worried about future prospects. In fact, I cannot remember a time when competent analysts disagreed so much.

In economics, as well as history, there are those who tend to focus on the large events and major players. They look to see what moves the masses to revolution or market mania. Which leaders acted decisively and which watched as their world collapsed around them. To them, it is the kings and presidents, the generals and revolutionaries, the business titans and the central bankers, who set the course to which the economic and political ships sail. The rest of us are passengers, and while we do play a part, we can (and perhaps even need to) be led. The large portion of society is seen to be responding to economic tides and forces. If the leaders can simply set a wise course, then all will be well. If you leave the masses alone to fend for themselves, you subject the country to an unfriendly business cycle, not to mention panics, market manias and depressions.

Then there is the view that the economy is made up of individuals making various self-interested decisions, along the lines of Adam Smith's invisible hand. These compounded decisions create the tides of economy, and the various leaders mentioned above can only respond and influence on the margin the various factors. You can lead a horse to water, but you can't make him drink. You can lower interest rates but you can't make them borrow. You can increase the money supply, but you can't maintain the value of money if you do so. Manipulation of the economy by the government and central banks will result in excess and imbalance and will lead to recessions to correct the government created imbalances or worse.

Between these two poles are a variety of economic schools of thought. Each of these schools argue passionately for their view of the world, and many have good points. But which is right, you ask? Ignoring the more simplistic and politicized (and obviously wrong) schools like communism, in the short run, which is to say the world we live in, the answer depends upon what your question is and how long is your time frame.





# COIN MARKET NEWS ROUNDUP

## It's a "Quiet Riot" as Everything is Selling

PCGS Bruce Amspacher

"There's no denying that the rare coin market is sizzling, but the forecasts for the future are as filled with optimism as the present is bursting with ebullience. The market is definitely on the upswing."

### FOUND: \$2 MILLION NICKEL

GORDON T. ANDERSON, CNNfn "A rare coin, a Liberty Head nickel bearing the date 1913, one of five illicitly minted early in the last century, turns up at last. At the start of the ANA show, another of the 1913 nickels -- the Eliasberg specimen, which most numismatists consider the best of the lot -- changed hands in a private transaction for approximately \$3 million. The seller, Dwight Manley, acquired the Eliasberg in 2001 for \$1.84 million. Does he have any regrets in parting with it now? 'Well, I may have underpriced it,' he says." American Numismatic Association Money Fair adds gloss to coin collecting - Washington Times By Charles Hoskinson

In the library of Our Lady of Mercy Elementary School in Potomac, 79 summer campers feign interest as coin enthusiast Jack Schadeegg shows them a film about how coins are made.

Some of the youngsters struggle to stay awake. But Mr. Schadeegg, secretary of the Montgomery County Coin Club and a longtime collector whose visit today is sponsored by the club, knows how to pique their interest: All he has to do is show them the money.

He does, handing each child a sealed envelope with a coin inside. Their eyes open wide as silver dollars: It's a chance to hold bits of history.

"Money's a good thing to collect," says 13-year-old Karol Kelley as she examines a 242-year-old Spanish "piece of eight," the coin on which the U.S. dollar was based.

(Continued from page 17 - Optimism vs Realism)

The savage effects of increased cost of living, negative real returns and declining net worth have paralyzed millions of investors. But inaction is not the answer either.

If you are one of those confused investors now standing at a financial crossroads, the question is: whether to stick with what you think you know (equities) -- or to venture into an unfamiliar investment domain, such as tangible investment-grade gold coins -- with a fresh hope of hedging risks and then watching your assets grow again over time.

The choice seems clear from my perspective, because gold and silver coins represent a new type of coined financial freedom to both investors and collectors. And their growing appeal is not purely based on three centuries of trustworthy service as authentic "money," nor their aesthetic beauty, but instead, because they are a shining example of what lies ahead in the next century -- a major swing in the pendulum of perception of how we define true wealth.



### THE SOURCE OF FINANCIAL HOPE

True wealth alone stands the test of time because it is the SOURCE of financial hope (and confidence) rather than dependent upon it. To those of you who are slowly losing confidence in ALL investments, we offer you our help in rediscovering gold coins -- the safest, most private investment in the 21st century!

Rare coins require no hurry, no worry and no stress. Sound appealing? It does to more and more investors every day. We invite you to let us help you learn the virtues of becoming an investment tortoise (instead of a hare) even in the face of a modern culture accustomed to traveling in the fast lane.

Learn to say no to the "hurry up" world -- and yes to tangible assets of value -- which embrace time as a friend instead of as an enemy.

At your service,  
David Bradshaw, Editor, SATC



Recent Quotables posted at  
SwissAmerica.com  
**39 ECONOMISTS  
AGREE ON SOMETHING  
TANGIBLE!**

37) "Until recently, talk of deflation and recession has been the domain of doom-and-gloom newsletter writers and fringe economists. But mainstream economists are starting to talk about deflation with dead seriousness."

JOHN WAGONER, USA Today.com

38) "Greenspan made it abundantly clear that he intends to keep the monetary spigot opened wide for as long as it takes to bring solid growth back to the economy. The resulting continuation of negative real interest rates for as far as the eye can see augurs well for gold, as does any sign that the Fed's policies will gain at least a little traction. Just as important but little discussed relative to gold is that Greenspan has at least temporarily removed one of the impediments to investors in larger numbers looking to gold as a "safe haven" asset."

CHRISTEMPLE, Nationalinvestors.com

39) "Right now, Wall Street stock promoters and their followers have the upper hand. And the more they see news of an uptick in the economy the more they talk about 'a real recovery under way.' Watch out! It's just another great trap!"

D.R. MARTIN WEISS,  
SafeMoneyReport.com

**Plus your editor ... makes 40!**

"What are the expected results of another stock market crash? My guess is that Americans will experience a rude awakening ... leading to a spiritual awakening... leading to major changes in virtually every area of life. It could take a few more years until we reach the breaking point, or, it could happen any day."

DAVID BRADSHAW, Editor RMP,  
Myideafactory.net



# MY "NO MATTER WHAT HAPPENS" STRATEGY

by Pat Boone

Stocks, bonds, real estate, cash, or gold? Which do you think offers the most potential to investors in the next few years?

Well, according to Swiss America, the answer is... ALL OF THE ABOVE!.. IF you have a truly diversified portfolio that includes U.S. gold coins.

Yes, I'm a proud gold owner of many years thanks to Swiss America. They're helping America to rediscover gold in the 21st century.

After years of losing money in the the stock market, millions of investors are now sitting on the sidelines... waiting for clear direction. Swiss America taught me an investment strategy that works -- whether stocks go up OR down! I call it my "NO-MATTER- WHAT-HAPPENS Strategy" because it's based on tangible assets, like U.S. gold coins, which are not driven by Wall Street shenanigans, but rather, by the simple law of supply and demand.

Gold is the only asset that never becomes a liability! Unlike stocks, bonds, or even cash, gold is a physical asset with a history of safety, privacy and profit potential.

You see, most investors I've talked with, have never really taken a good look at gold or rare coin investing ...until NOW! I guess it's because gold coins provide a safe haven during troubled times - as well as complete privacy and annual returns between 5% to 50%.

Call Swiss America to discuss your tangible asset diversification strategy today for the full story about The New Gold Rush!

\*\*Watch Pat Boone's new TV spot at [SwissAmerica.com/media](http://SwissAmerica.com/media)



**swissamerica.com**  
Helping America Rediscover Gold

# A GOLD MINE

**MY DREAM IS TO HELP AMERICA**

**REDISCOVER GOLD IN THE 21ST CENTURY**

and SwissAmerica.com is yet another tool to help educate the novice (and "experts") about all of the good reasons that tangible asset diversification pays over the long term.

SwissAmerica.com offers the public a new window into the fast-paced tangible markets that cannot be found on any other major financial news Web site today. News, commentary, history, educational tools, multi-media resources... are just a few of the features offered free to the public.



SwissAmerica.com includes new daily and weekly economic features designed to help gold and coin investors, collectors and financial professionals to navigate today's exciting gold and rare coin markets.

SwissAmerica.com Members will be on the inside track -- following the key gold and coin market trends that helped thousands of Swiss America clients to realize as much as 57 percent growth in their coin portfolio's in 2002-03. SwissAmerica.com Members w  
coin market news via our free weekly email service.

Check it out...and please ...  
send me your feedback at [crs@swissamerica.com](mailto:crs@swissamerica.com).  
SwissAmerica.com is updated daily with news, views  
and upcoming media interviews, so visit often and,  
tell a friend!

Expecting the best... (but prepared for the worst),

Craig R. Smith  
CEO, Swiss America





# SWISS AMERICA EDUCATIONAL RESOURCES



**THE NEW GOLD RUSH, PL. I:** A summary of economic and market trends in 2002-03 featuring over a dozen respected financial journalists in a 32-page color format.



**REDISCOVERING GOLD IN THE 21ST CENTURY:** The Complete Guide to the Next Gold Rush -A primer for both the interested investor and collector that traces the history of U.S. gold coins, valuation and pricing factors, market cycles, independent certification and the effect that growing public demand has upon shrinking supply. 172 pp 08/2001



**MARKET ALERT: SUMMER RALLY IN GOLD:-** A response to the hype over summer rally instocks by comparing the numbers between 2001-2003.



**U.S. GOLD COMMEMORATIVE RESEARCH REPORT:** First published in March 2000, this eight-page report explains U.S. Gold Commemoratives, the top performer in the coin industry from 1999 to 2001.



**U.S. PROOF SILVER TYPE RESEARCH REPORT:** First published in May 2001, this eight-page report explains why U.S. Proof Silver Type coins minted 1936-1942 have increased as 100% between 2001-2002.



**A RARE OPPORTUNITY:** An introduction to the U.S. rare coin market, grading and certification standards, Swiss America credentials, FAQ and ordering instructions



**RARE COIN BUYER'S GUIDE:** An overview of the U.S. rare coin market, bullion and stock comparisons, coin market cycles, volatility, certification, grading and population.



**THE RIGHT TO OWN GOLD:** A Special Report examining the role of gold in society, previous government confiscation of gold bullion and historical price performance.



**TRUE WEALTH** by Craig Smith: A 20-page Special Report on the biblical foundation of true wealth. Covers stewardship, the battle over money, economic evangelism and much more.



**THE BIG PICTURE:** A special report featuring Pat Boone, Craig Smith, Dennis Peacocke, James Rutz, and Ken Klein. 32-page booklet available.



**PCGS/NGC BROCHURES:** PCGS and NGC are the two major independent coin grading, encapsulation and certification firms in the world.

SwissAmerica.com has posted e-versions of most of the above for members. Call 1-800-289-2646 to request copies of any of the above resources.

## IS THERE NOT A CAUSE?

A Radio Salute from the Editor



Choice  
abounds on  
the radio dial  
from music,  
to sports, to  
religion, to  
current  
events.

Americans want to be entertained and challenged at home, at work, in the car, everywhere.

Yet, in their obsession for ratings, the mass media does very little to help bring clarity to Americans on the most important issues the way talk radio does. Talk radio stands as the last guardian of cultural sanity for millions of faithful listeners every day by allowing the audience the opportunity to become participants – rather than just spectators.

Swiss America salutes the brave radio hosts who have helped us to bring our message of prudent financial planning over the years. We encourage our readers to listen and get involved in understanding these critical issues of the day especially economic issues.

Thanks to the advent of streaming audio on the Internet, you can listen to your favorites virtually anywhere in the world. Hardly an hour of the day passes that you can't find a show that we support.

Below is a sample daily radio schedule. We have links posted at [SwissAmerica.com](http://SwissAmerica.com) home page to listen to sponsored programs and live daily interviews with Craig Smith on brave new talk shows. Thanks to you all, you are the best of the best!

### Mon.-Fri

Roger Arnold  
Daily 8-9am PT

Derry Brownfield  
Daily 9-10am PT

Chuck Harder  
Daily 11-1pm PT

Tom Obrien  
Daily 1-3pm PT

Michael Savage  
Daily 4-7pm PT

Warren Duffy  
Daily 4-7pm PT

Roger Fredinberg  
Daily 7-10pm PT

### Saturdays

Mary PopOff  
Sat. 9-11am PT

Barb Alexander  
Sat. 10-11am PT

Pat Boone  
Sat. 9-10pm PT



# 21<sup>ST</sup> CENTURY GOLD RUSH!

39 ECONOMISTS FINALLY AGREE THAT  
GOLD IS THE COLOR OF FINANCIAL HOPE.

• In 2001 we published: *Rediscovering Gold...*

And a handful of economist agreed.

• In 2002 we published: *The New Gold Rush...*

And over a dozen economists agreed.

• NOW... *The New Gold Rush, Part II...*

And not a moment too soon, according  
to the NY Times, this is "the most  
confusing time for investors  
in over 20 years."

Let the confusion end!

Absorb the wisdom of  
over 50 respected  
economists that  
want to help you  
learn to earn with  
a tangible asset  
strategy. Then,  
read *The New  
Gold Rush,  
Part I* for  
the rest  
of the  
story...

Call today!

1-800-BUY-COIN

Also available online

[www.SwissAmerica.com](http://www.SwissAmerica.com)



15018 N. Tatum Blvd  
Phoenix, AZ 85032

