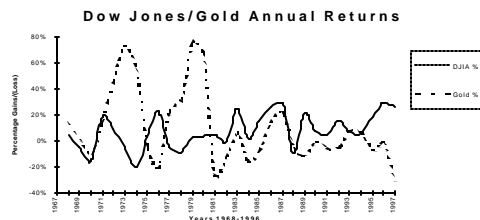




Gold & Technology Stocks



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An Ian Gordon Update on the Kondratieff Winter



Your editor was first introduced to Ian Gordon via a short letter he sent to me on August 27, 1998. "Dear Mr. Taylor, Enclosed are the first three issues of "The Long Wave Analyst," which I am writing on a bi-monthly basis. If you think there is any merit to my work, would you consider a newsletter swap? Yours sincerely, Ian Gordon

Upon reading Ian's work, I knew immediately that it was not only worthwhile but that it was extraordinary. Believing very much in the deflationary views of John Exter—perhaps the only central banker in history ever to urge the use of gold as money—Ian's profoundly deflationary views not only made sense to me, they also helped explain why John Exter was premature when he predicted an imminent deflationary collapse of the monetary system at the end of the 1970s and in the early 1980s. Exter understood that at a point in time, even the most extravagant efforts to inflate the economy would be overcome by a burden of debt too great to be serviced from income flows. Exter believed that a monetary system run amok, following Nixon's cowardly move to lead the U.S. to default on its Bretton Woods obligation to back the dollar with gold, would self-destruct in short order.

Exter was absolutely right in suggesting that the ultimate end of this new floating currency regime, ushered in by Nixon's dastardly deed, would be a deflationary default of the global monetary system and a huge depression to follow. What Exter lacked, that Ian Gordon provides, is a bigger-picture view of why over the 60- to 70-year long Kondratieff Cycles, printing money at certain times is inflationary, at other times it is disinflationary, and at the end of the cycle, why it is outright deflationary. Ian's observation of Nikolai Kondratieff's work, combined with historical data following Kondratieff's death, covering four Kondratieff cycles beginning in the late 1700s, provides an insightful understanding of the answer to that question. It also helps us identify the primary trends of the cycle that we are in at any given time. As such, although each of these cycles can last 10 or 20+ years, Gordon's work is not only theoretical, but highly applicable to investors, which is why I have chosen to stick to this still relatively unknown broker/historian like glue and to constantly share his insights with my readers.

The First Gold Bull in This New Bull Market

Some of us gold bugs, your editor included, have almost always been bullish on gold. I must personally confess that I had "capitulated" only after gold headed down toward \$250 and when the likes of Blanchard & Company, once the most pro-gold organization on the face of the earth, turned bearish on gold. But through the application of his studies of the Kondratieff cycle, it was soon after that time when Ian began to convince me it was time to start taking a long-term position in gold stocks. To his credit, Ian was the first gold bull I know in the new bull market. Moreover, he was the only broker in Vancouver back in 1999 who was willing and able to find raise equity (mostly from European and Japanese investors) for the small junior mining companies, most of whom barely had a pulse in those days. Many of those companies have since found their way into *J Taylor's Gold & Technology Stocks* as some of our biggest winners in 2002 and 2003.

Ian Gordon was educated in England and served as an Infantry Platoon Commander with his regiment, the Cameronians (Scottish Rifles), in Germany, Scotland, and under active service conditions in South Arabia. He resigned his commission in 1967 and immigrated to Winnipeg, Canada, that year, where he received a B.A. in history in 1972. From 1983 onward, he pursued a career in investment management. Over the years he worked with Dominion Securities Ames in Thunder Bay, Ontario, Nesbitt Burns in Toronto, and James Capel (later HSBC Securities) in 1994. In 1995 he was recruited to manage the retail sales operation of a small investment firm in Vancouver, BC, and in 1996 he and his partners founded Woodstone Capital, a boutique Vancouver-based brokerage firm. In 1998, he joined Canaccord Capital as a vice president and investment advisor.

About 38 years ago, my first job before going to college was in a titanium wire factory in Ohio. I made all of \$1.70 per hour. I remember one “hillbilly” in the shop frequently answering questions with a question: “*Do you want to know the truth or do you want me to make you feel better?*” In America these days, where getting high, getting laid, and getting rich seem to be far more important than dealing with objective truth and reality, Ian’s message has not been nearly as popular as the positive spin provided daily on CNBC. Your editor, who has always tried to ferret out truth no matter what the personal consequences might be, is a newsletter promoter’s nightmare. Yet, I have found over the years there is a small remnant of independent thinkers who relish thinking outside and challenging the establishment. Many if not most of this crowd understand that a force much more powerful than man has been at work in history and remains in control into the future.

Ian is definitely one serious thinker who understands mankind is not capable of entirely molding its own destiny. That is clear from his observation of repeated patterns of self-defeating behavior from generation to generation, from one Kondratieff cycle to another. I have no doubt that is why I immediately found Ian’s work to be so compelling and why he has become one of my best friends over the past few years. His honesty and integrity are second to none, at least in the tainted investment world. He and I have spent many hours talking about economics and history because I find his insights to be invaluable to me as editor of *J Taylor’s Gold & Technology Stocks*. I believe in the future we will look to this interview (recorded on New Years Day, 2004), as well as prior interviews, and give thanks to God for this disciplined but freethinking stockbroker. I trust you will enjoy, profit from, and be challenged by Ian’s fascinating insights. If this interview helped only one of our subscribers avoid the devastation that lies ahead, it would be worth the effort. In fact, we know Ian has already benefited dozens if not hundreds of our subscribers because he was in no small part responsible for helping us recommend the purchase of junior gold stocks that have, in many instances, already increased several hundred percent, even at this very early juncture of the gold bull market.

Taylor: Since we first interviewed you in 1999, our subscriber base has grown dramatically. For the sake of many of our new subscribers who may not be all that familiar with the Long Wave Theory, also known as the Kondratieff cycle, can you perhaps give a quick overview as to what the Kondratieff Wave is and why it is relevant to investors today?

Gordon: The Kondratieff cycle runs for approximately 60 to 70 years. It is appropriately divided into the four seasons. Spring is the rebirth of the economy. Summer is the time when the economy achieves its fullness, which is characterized by inflationary abundance. Autumn is the “feel good” season and the time in the cycle in which real estate, bonds, and particularly stocks achieve mammoth bull markets, the biggest in the entire cycle. And then winter is the payback season when debt is cleansed from the economy. For investors, each season offers particular investments that give the best returns and, conversely, incorrect investment choices that entail significant losses.

So in the spring, which is the rebirth of the economy, stocks and real estate perform the best. In the summer, which is the inflationary part of the cycle, investments that perform best are real estate, commodities, and gold. Autumn is always the season when investments in stocks, bonds, and real estate make huge gains. Winter is the time to be careful due to the debt cleansing; therefore, gold and cash offer the most security and best returns.

We can always recognize when we are entering the autumn, the big bull market in stocks, bonds, and real estate, because four events anticipate it. One is the peak in commodity prices. Two is the peak in interest rates. Three is the bottom of the bear market in stocks (e.g., 1982 and 1921). Four is the recession; e.g., the 1920–21 recession in the previous K-cycle and the 1981–82 recession in this cycle. The beginning of winter is always signaled by the peak of the autumn stock market.

Taylor: Speaking of the peak in the stock market, in our June 1999 introductory interview, you felt that the stock market had already peaked. With the benefit of 20/20 hindsight, we now know that at least some of the indexes like the NASDAQ and the S&P 500 peaked early in 2000 as money pumped into the economy allegedly to avert a Y2K disaster served to blow the equity bubble up to its outer limits. Have you revised your thinking on exactly when the autumn peak of the market occurred and as such when the Kondratieff winter began?

Gordon: You could argue, as Richard Russell does, that the peak occurred in 1999 with the top in the advance/decline ratio. However, the peak in the stock prices was achieved in January 2000 for the Dow and in March of that year for the NASDAQ. Therefore, January 2000 is the best signal for the onset of the current Kondratieff winter.

than in the 1929–1949 depression. So this is likely to be just as bad if not worse than its predecessor. As an aside, it should be noted that consumer debt was invented in the U.S. during the 1920s, when businessmen like Henry Ford encouraged consumer purchase of their products through purchase loans.

Taylor: Well consumer debt has certainly kept the U.S. economy from falling off a cliff. Perhaps it has allowed us to climb even higher so that the eventual fall will be all the harder?

Gordon. Right. You just can't keep building debt on debt forever. Ultimately, the piper must be paid. Because of this already horrendous debt bubble, the ramifications for the U.S., indeed world economy, are horrendous.

Taylor: Going back once again to our initial interview in 1999, even though the Nikkei had fallen about 70% to 12,000, you said you thought this Japanese index still had farther to fall. Indeed you were right, because it dropped below 8,000. It has since rallied to close at the end of 2003 at 10,676.64. Do you think this index—the Japanese Nikkei—has bottomed and as such offers Americans a good investment opportunity?

Gordon: No, and here is why. I think the actual low for the Nikkei last year was around 7,200. I don't think that is the bottom. When the U.S. economy seizes, as it will, the Japanese economy will suffer its final blow. I have a target bottom of 4,200 for the Nikkei, which parallels the Dow bottom of 42 in 1932. Actually, it is quite interesting because the Nikkei peaked at about 38,000 in this last cycle, compared to the Dow's peak in the previous Kondratieff cycle at 380. That's why I'm picking 4,200 for the Nikkei in this current cycle.

Taylor: Interesting. So you see a parallel between the U.S. in the past cycle and Japan in this cycle. Besides stock prices, do you see other parallels between the U.S. and Japan in these two cycles?

Gordon: Actually, I do. I anticipate that Japan will replace the U.S. as the leading economic financial and political power in the world. This is because I am convinced that the days of the U.S. leadership are over. A nation cannot be a debtor nation, let alone the world's largest debtor nation, and enjoy those distinctions. Leadership always goes to the world's largest creditor nation: Britain in the nineteenth century and the U.S. in the twentieth century. Japan is the largest creditor nation today and I believe that it will supplant the U.S. in the leadership role.

Taylor: That's very interesting. The notion that Japan, not China, will emerge as Asia's powerhouse is certainly not shared by most mainstream babblers these days. Why Japan rather than China? China is certainly growing rapidly. It is in the news even more than Japan. It is also a large creditor nation.

Gordon: But it isn't the largest. And this process is going to take time, just as it took time for the U.S. to assume its leadership role from Great Britain. With respect to Japan, we already have indications of this transition. The Nikkei's market cap in late 1989 was larger than that of the New York Stock Exchange, and eight of the ten largest banks in the world at that time were Japanese. Too, Japan today is just beginning to take on a new military awareness, such as sending troops to Iraq, which is outside of its given military mandate; and, it is talking about developing a missile shield. So, little by little, Japan is assuming a more predominant role internationally; whereas, China, despite the torrid pace of its growth, is only now where Japan was in the early 1970s. China also faces significant problems, such as a pathetic banking system and major unemployment. What Japan needs to do now is start weaning itself from the U.S. and promoting the yen as an important international currency. This might be achieved by the Japanese Central Bank buying gold as backing for its currency.

Taylor: Let's get back to the U.S. economy. Conventional wisdom holds that the U.S. can simply inflate our excessive debt problems away. Fed Governor Bernanke over the past year even talked about dropping money from helicopters to inflate the economy. I had an interesting conversation with Jim Rogers, a brilliant, freethinking man, whom I deeply admire. He agrees that we will in time have deflation, but that we will have significantly more inflation for quite some time before the deflationary bug turns into a deflationary depression. We certainly are seeing some commodity inflation these days, and Jim makes some very good arguments as to why that may continue for quite some time. On the supply side, he points out that there simply has not been much capital allocated to augmenting the capacity to increase production of many if not most commodities. And on the demand side, he points to the rise in wealth flowing to Asia as a reason to think demand for basic raw materials is likely to grow dramatically. I know your Kondratieff model calls for deflation to be the predominant problem during the Kondratieff winter. Is it possible that both you and Jim Rogers may be right and that increased raw materials prices could in fact actually be more deflationary for the U.S. because it adds to our cost of production and reduces consumer disposable income?

Gordon: I admire Jim Rogers very much. I have read his books. He is a man who thinks far more widely than I do. However, as I see it, we do have commodity inflation for two primary reasons. One is that commodities are priced in dollars, and the dollar has been dropping. Secondly, there is that torrid pace of Chinese growth and the accompanying huge demand for raw materials. But right now China reminds me of Southeast Asia in 1998. Whether it can continue to grow at this kind of pace or whether we will see a complete bust out of China, I don't know. But I'm predicting that China will not be able to continue to grow at this pace.

As I recall, the definition of inflation is too much money chasing too few goods. While it is true the Federal Reserve is doing everything in its power to create “too much money,” that money creation is returning mostly to asset inflation, both in the stock market and continuing in the real estate market. On the goods side, however, there is an over-supply. For example, I recently read that the automobile industry can produce in excess of 25% of the total demand. This phenomenon is typical at the end of the Kondratieff autumn, when cheap money leads to massive expansion of the capital goods sector. Thus, we have far too many goods being produced, and that is deflationary. Moreover, as I have always argued, debt itself is deflationary. And we know that the world now has an enormous debt burden principally made in the U.S., which is waiting to burst.

Also, you mentioned that the Fed talked about dropping money from helicopters. In a sense they have already done that with the tax rebates that they have mailed to all Americans, and they are scheduled to do that again in the spring of 2004. I don't think they can continue to do that indefinitely. Indeed if the U.S. dollar continues to head down, which I think it will, the U.S. is far likelier to raise rates. That is unlikely in an election year, but we'll see.

Taylor: So far this Kondratieff winter has been characterized by what I like to think of as “Vancouver-like” winter temperatures. We have pleasantly cool temperatures that are just above freezing but certainly not harshly frigid. In other words, we have seen rather lackluster economic growth, but except for a very brief period in 2002, no economic contraction, at least according to government stats. This has led most economists to declare the recession as being over and that we will soon experience robust growth once again. Indeed, GDP reportedly grew by 7.2% for the third quarter of this year, which sounds more like “Indian Summer” than winter. But I take it you still believe the worst is yet to come in this Kondratieff winter, so I have a multi-part question for you.

First, when do you think “freezing” temperatures will finally come (that is, when do you see negative economic growth), and what are some of the likely indications that cold arctic winds are about to blow? What events might trigger the beginning of a debt collapse leading to corporate and individuals falling over like so many dominoes lined up next to each other? And finally, will there be time for investors to disinvest from an inflationary investment profile (e.g., energy stocks and the Rogers Raw Materials Index Fund) into purely deflationary investments such as cash and gold?

Gordon: When you consider the spin, like hedonic pricing of computers and the vast increase in defense spending, the real growth is nothing like the officials would want us to believe. In 2004 we could start to see the real onslaught of winter because I don't see another up year for stocks. The Kondratieff winter has already been signaled by the peak in stock prices in early 2000. Nor do I see consumers already overburdened by debt continuing to add to that debt to keep the economy going. One has to remember that over 70% of the U.S. economy is driven by the consumer. Also, the dollar is in jeopardy. It is in a rapid decline anyway. If it were not for the Japanese and the Chinese intervening in the dollar market, particularly the Japanese to keep down the value of the yen, the dollar would have fallen much further than it has already. If foreigners start to give up on the greenback, then dollar interest rates must rise, and that would sound the death knell for the U.S. economy. A possible trigger for the debt collapse is a sudden failure of China's economy, somewhat akin to the Asian collapse in 1998.

Taylor: Richard Russell and others are saying we are in the early stage of a bull market in gold. Do you agree and if so, how high do you think gold can rise, and how many years do you think the bull market will last?

Gordon: Of course I agree with Mr. Russell on gold because the Kondratieff winter is always the time when gold comes to the fore because the world's financial and monetary systems are always in disarray at that time. I think the bull market for gold could last for many years because of the hiatus caused by the U.S. dollar's demise as the world's reserve currency. It took fourteen years from 1931, when Britain went off the gold standard and lost its monetary leadership, to 1944, when the dollar was established as the world's reserve currency at Bretton Woods, New Hampshire. We are going to wait a similar period of time for the next reserve currency to assert itself, during which time gold is becoming the money of choice. As to the price, I have always stuck around a target of \$2,000, content with making that kind of prediction based on the evaluation made by Lord Reese-Mogg and James Dale Davidson in their book, “*The Great Reckoning*.” They wrote about gold rising during deflation—in real terms, 8% above the preceding inflationary price peak (\$850 in 1980)—which gives us a deflationary price of between \$2,000 and \$2,500.

Taylor: Most analysts see the rise in gold as an indication that we may have an inflationary problem on the horizon. They think only of gold as an inflation hedge. But you have pointed out that gold actually does better during deflation than during inflationary periods of time. For the sake of our new subscribers, would you care to explain why that is so, and perhaps provide some evidence of it?

Gordon: During the Kondratieff winter as the debt is unwound, deflation assumes control of the economy. This debt unwinding causes huge problems for the lenders, which are principally the banks. This causes people to seek the security of gold. They did this in the early 1930s, so much so that just before President Hoover left office, his Secretary of the Treasury went to him and told him that the U.S. was running out of its gold because everyone was turning in their dollars for gold, as they were legally permitted then to do. And so when Roosevelt came to power in 1933 he confiscated all the gold—I think essentially to replenish the Treasury—and he forbade its ownership. And shortly after he confiscated gold, he raised the price from \$20.67/oz. to \$35/oz. Homestake Mining's stock price increased 600% between 1929 and 1936. It was up 300% even

before Roosevelt raised the price of gold to \$35 in January 1934. So there was a huge move to own gold. Once gold was confiscated and its ownership forbidden, the only way Americans could own gold was through owning gold mining shares.

Taylor: So I take it that you see gold shares as a good proxy for gold bullion? To what extents do gold stocks and gold bullion move together, and would you advise people to own both now, while we are still able to do so?

Gordon: I think you have to own both. You always have certain risks associated with shares, whether from political interference, the risks of putting a mine into production, or production problems. Naturally, stocks and gold bullion are going to move together, although stocks themselves are said to be anticipators of the move in the bullion. A general rule of thumb is that stocks are levered 3:1 to the price of gold. When the gold price is rising, as it will during the Kondratieff winter, the best leverage to this is investment in junior gold mining companies.

Taylor: Getting back to the equity market. How many years do you think we have left in the equity bear market? Could it go on for two or three years or five or ten years or what?

Gordon: I think the powers that be will do everything possible to try to keep the appearance of a bull market going. I think a good example of how long it might go is what has been happening with the Nikkei. We had a peak in December 1989 and it is still in a bear market 13 years later. The longer policy makers interfere with the markets, the longer the correction process. When things start to unravel in the U.S., like rising interest rates, because foreigners start to sell off their debt, I think the sell off in stocks could start to happen rather quickly. So whereas in 1929 you had the panic in the beginning of the equity decline, here we could have the panic toward the end.

Taylor: I believe it was in 2000 or so that the Japanese people began to buy gold when the government proposed reforms that would have eliminated or at least reduced deposit insurance which had been unlimited—unlike the U.S., which has a \$100,000 limit per account. Japanese citizens, realizing that their banks had so many bad loans, knew that if the government reduced its deposit insurance, many of their banks would topple over and their yen holdings could become worthless. In your view, could similar dynamics in the U.S. trigger a Kondratieff winter freeze-up?

Gordon: I don't think it is possible that the U.S. government is going to curtail deposit insurance. Of course deposit insurance was introduced in the 1930s in the last depression. They are almost certainly going to need it again in this one.

Taylor: What about bonds? During deflation, I would think the U.S. Treasuries might be a good place to invest since you would gain at least some return from coupon payments even as the dollar gained purchasing power. Also, during a deflationary period of time, the value of the bond might rise as well as interest rates decline with a stagnant or declining economy, right?

Gordon: I think I have a problem with your question here. You say, "even if the dollar gained value"—I don't understand how that would be.

Taylor: Well, if we define deflation as declining prices, then by definition, the dollar should actually buy more.

Gordon: Okay, I see what you mean. The dollar will buy more house, more car, more suit, or whatever. I don't like bonds but I do like Treasury Bills. I want to be short term and not long term. The U.S. is so heavily indebted that it is at the mercy of its foreign creditors. If they begin to dump U.S. debt—and in the longer term it is likely that they will—interest rates must rise. Thus the value of bonds would fall. Interest rates rose in the depression between 1932 and 1934, even though the U.S. was not a debtor nation, but they rose to support the dollar. The situation is the same now. The dollar is falling, and foreigners who own almost 50% of the U.S. debt are losing money. They might well demand higher rates to offset dollar depreciation. The Federal Reserve can influence the short-term rates but it has no influence on the long-term rates.

Taylor: But in theory, at the end of the Kondratieff cycle, perhaps as the old cycle comes to an end and when economic activity has hit bottom, bonds might be a good investment as we get ready for the next 60- to 70-year cycle; might not bonds be a good investment then?

Gordon: Yes, they will be at the end of the winter, but not now. Interest rates reached their lowest levels in about 1949 or at the end of the winter in the last cycle. The whole process of washing debt out of the system means that interest rates are more likely to rise to satisfy creditors on account of increasing credit risk.

Taylor: You noted in our 1999 discussion that the Japanese issued something like 90% of all the debt that was created that year. If the Japanese simply printed money to try to inflate their way to prosperity, it doesn't seem as though it has worked very well, because according to an article I read about a week or two ago in the *Financial Times*, Japan is still experiencing declining prices although their economy has recently been somewhat stronger. Given the apparent lack of success for Japan, why do you think Bernanke and Greenspan think the outcome would be any different with the U.S. running its printing presses full speed? Is printing money the only solution they know or perhaps is that the only politically palatable solution?

Gordon: You know, the Fed really has two options. One is to bring interest rates down, which it has done. The second is to flood the banking system with money, which it is doing. The difference between America and Japan is that Japanese debt is essentially funded within Japan. The Japanese people own something like 35% of the world's savings, or \$13 trillion.

Unfortunately, Americans are not savers. Thus almost 50% of U.S. debt is loaned by foreigners. This is not a healthy predicament. This dependency can result in not only higher interest rates, but also in a falling dollar. This places the U.S. economy in jeopardy. Given U.S. indebtedness and the country's dependence on foreign creditors, U.S. dollar denominated bonds are especially a bad investment, at least in the early days of this Kondratieff winter.

Taylor: You and I have talked about the gold manipulation allegations of GATA, and now we are seeing the Blanchard case going into discovery and scheduled to go to trial in April of 2004. Still we see evidence from time to time of apparent downward manipulation of the gold price, such as on Monday, November 17, when—even as the stock market was getting trashed on the heels of a 3.5% decline in the Nikkei—gold dropped \$5 or so in a matter of minutes, but then almost as quickly, it rallied just as sharply. That pattern has been more and more common since gold has begun its bull run, and it contrasts sharply with the pattern of a couple of years ago when a \$5 hit in the price of gold would take weeks to recoup, if indeed it was recouped at all. So now we see the big name bullion houses hitting gold very hard in early New York trading, followed by what are obviously some very serious buyers of gold ready and able to take advantage of this pattern of selling to buy gold at very low prices. Who do you think these new serious buyers might be? Do you think it may be a foreign central bank or two? Or perhaps some very wealthy investors or hedge funds?

Gordon: Let me talk a bit about the gold manipulation issue. I'm sure that the gold price is manipulated. We know throughout history whenever governments have imposed a fiat currency, they always try to keep the price of gold down, because a rising gold price is basically a condemnation of their paper currency. So it was when the U.S. organized the London Gold Pool in the 1960s to hold the price of gold to \$35. Of course that was a failure, because the price of gold ultimately reached \$850 at the inflationary summer peak and America had long since abandoned the gold standard. In the 1970s, the U.S. and the IMF sold gold to try to hold back the advancing price of gold, but to no avail. When the gold price peaked at the end of summer, it went into a long-term bear market because during the Kondratieff autumn 1980-2000, paper assets like stocks, bonds, and real estate (mortgages) became the investment of choice as they always do during that Kondratieff season. Thus gold was not a threat to the paper dollar and there was no need for the government to try and keep the price down; the market was looking after that anyway. But, when it appeared that paper assets were losing their investment attractiveness, and investment in gold began to stir, the U.S. government was forced once again to declare war on gold. This it did by using its friend and accomplice Great Britain, which announced an ongoing auction of British gold. Subsequent sales were undertaken by such patsies as Kuwait and other minor countries. So this has happened throughout history, but it has always failed. That is why I don't get terribly upset about it. After all, it allows us to buy gold at a cheaper price than it might be, had there not been the interference in the orderly market. Anyway, I am confident that gold will be the investment of choice in this Kondratieff winter, as it has been in previous winters, but more so, because the dollar's days as the world's reserve currency are numbered.

Taylor: You mentioned a little while ago about the Japanese buying U.S. Treasuries. There is an interesting thing going on now where the Japanese are printing huge amounts of yen to try to keep their currency from rising against the U.S. dollar, and then they turn around and use those yen they create out of thin air to buy U.S. Treasuries which puts upward pressure on the value of the dollar. This sort of competitive devaluation process is certainly not limited to Japan. In fact it seems to be very widespread and growing as nations look for ways to cheat against their competitors by lowering the value of their currencies. Would you agree that this is the most pronounced competitive currency devaluation at any time since the 1930s?

Gordon: Yes, I would. Everybody is trying to get that advantage, as they did in the 1930s.

Taylor: And this would get back, I think, to something you said earlier in this interview. During the Kondratieff autumn, enormous over-supply of goods and services is created, which then puts increasing downward pressure on prices and is one of the forces that ultimately lead to the collapse in the Kondratieff winter. And it is this very extensive over-supply that in fact is pushing these countries to cheat against one another in attempting to export primarily to the U.S., and devaluing their currencies. Would you agree that is happening and that it is very similar to the 1930s?

Gordon: It is. And the parallels to the 1930s are many. In the early 1930s President Hoover signed into law the Smoot-Hawley Act, which imposed a range of tariffs on imported goods. Similarly, President Bush has imposed all kinds of import duties on foreign goods. Most noticeable were the steel tariffs, which were ultimately denounced by the WTO, but not before the President had bought a year's grace for the U.S. steel industry. In like manner, corporate corruption was rife at the peak of both autumn markets and only came to light after the stock markets had peaked. Both presidents of the NYSE were disgraced. There are other less prominent similarities as well.

Taylor: I also note in reading some of Murry Rothbard's books that some remedies—fiscal and monetary policy—were tried in the 1930s, and the same remedies are being offered now.

Gordon: Right. The Fed printed money like crazy back in the 1930s and it reduced interest rates in the hope of jump-starting the economy, but it failed, as Alan Greenspan's Federal Reserve will fail this time. I see a similarity in terms of returning consumer confidence and rebounding stock prices and a nascent economy now, with the period immediately following the stock market crash, which bottomed in November 1929. Stocks, confidence, and the economy all rebounded in April 1930,

following that first stock market bottom, because the Federal Reserve responded to the crash by dropping interest rates and flooding the banks with money. But after April 1930, it was all downhill.

Taylor: I would like to return for a moment to the discussion of debt. Correct me if I am wrong, but according to your understanding of the Kondratieff model, I think you have stated that a point in time is reached during the cycle at which there is no possibility of inflating debt away. Can you explain why that is true, and, are we there yet?

Gordon: Printing money and inflating is only adding to the debt burden faced by Americans. Eventually it becomes impossible to sustain the debt bubble. And, I think we are so close to that point right now. Increasing levels of personal bankruptcy and foreclosures in the housing industry are all indicative to me that we are reaching the point of no return. Regardless of the spin put on the improving unemployment numbers, jobs are in fact scarce, it is taking longer for unemployed Americans to find jobs, and many people are taking low-paying jobs or going into self-employment. Once that debt bubble does explode it will result in a cataclysmic burst of bankruptcies, which will cause unprecedented levels of unemployment. Printing more money can delay this, but that only adds to the already massive debt. The larger the debt, the greater will be the ultimate economic disaster.

Taylor: There is a chart I like to show frequently to my subscribers that displays the almost exponential growth in debt. The curve is going straight off the page while GDP grows in a linear fashion if at all. And the gap between the amount of income that is being earned in the U.S. compared to the amount of debt is just getting wider and wider, and one wonders if we must not be getting close.

Gordon: I really think we have reached the point of no return so that even if policy makers tried to do the right thing, it would be too late to stop the impending deflationary depression.

Taylor: But we are looking at such long periods of time in the cycle so that whether it is one month or several months away, the problem is too big to fix without some very difficult times, right?

Gordon: That's what I think.

Taylor: About 15 months ago, Mrs. Taylor and I sold our house. We put most of the net proceeds into short-term government instruments (under two years) and made about 4% after getting a 1% kickback from our credit card company that gives a 1% rebate on credit card purchases. We put about 10% of the net proceeds into GoldMoney <http://goldmoney.com?gmrefcode=jtgs>, and obviously, with gold on the rise, we did pretty well. Housing prices in New York have risen, we are told, by about 3 or 4% since we sold our home, and we could have gained more equity as we continued to pay off our mortgage which was at the back end of the 30-year term. In other cities in the U.S., however, the housing market has registered double-digit gains. My question to you is this: Do you think Mrs. Taylor and I made a mistake in selling our home in Queens, New York?

Gordon: No, I don't. The real estate bubble is a part of the overall debt bubble. The primary purpose of the Kondratieff winter is to purge the economy of debt. Now that we're in winter, we know that the debt bubble has to collapse, which means that ridiculously high real estate prices based on a mountain of mortgage debt must collapse too. And Jay, as you know, I rent. I don't own.

Taylor: That is reassuring. We are looking forward to taking the cash we have from the sale of our house and using it to buy another home once the housing bubble bursts. The only problem is we don't know how long that process might take.

Gordon: I think the bust in real estate is going to take at most three or four years. I am surprised that the real estate market has continued to prosper for as long as it has. According to Hugh Hendry, a very capable hedge fund manager in London, the combined debt on the books of Fannie Mae and Freddie Mac is 30% of U.S. GDP. Imagine the fallout when real estate prices do start to fall in earnest.

Taylor: How long do you expect the Kondratieff winter to last?

Gordon: Well, the short answer is that it will last until bad debt is cleansed from the economy. The more the government intervenes to prop up ailing banks and other corporations and consumers, the longer it will take. Fear of disaster and social upheaval will undoubtedly mean that the government will try to delay the process. So it's likely to be a long and very cold winter.

Taylor: A multiyear downturn in other words. Shifting gears back to the topic of gold stocks, are you more positive on producers or junior mining companies that are exploring and developing new gold deposits? Could you explain your answer and perhaps offer a caveat or two?

Gordon: As you know from my talks at the Canadian gold shows, I like the juniors because that is where you get the best leverage to the gold price. We have already had some outstanding price moves in many of these companies. The producers are all reducing their gold reserves via production. The key, I think, to investing in junior gold stocks is investing in the management. I never recommend a junior mining company until I have met with management and am comfortable that it will

always act in the best interests of the shareholders by advancing the company's properties and, if necessary, dropping properties that do not meet its objectives. Of course, junior mining stocks are a high risk/reward investment, and they certainly do not meet every investor's risk criteria.

Taylor: And I guess, if you believe we are in the early stages of a gold bull market as you and I both do, so that gold prices are likely to rise to much higher levels, then it might not make sense for producers to deplete their reserves by selling at these low prices.

Gordon: Well, I don't think they can stop production to wait for a higher price. There was a very good article, I think on miningweb.com or some such place, that said that producing companies have limited reserves, which are being depleted every year. For example, the article mentioned some of the larger producers including Newmont, which is the largest gold producer. Newmont produces a little less than 8 million ounces of gold per year, which means that at that rate, its reserves will be exhausted within 7 years. Of course the company will bring new reserves on stream, especially as the price of gold rises, because that will make marginal deposits profitable. Anyway, I don't want to single out Newmont, because I do believe that it is perhaps the best-managed major gold producing company out there. From discovery to production takes about 7 or 8 years. The nature of all mining is to deplete reserves and therefore the assets.

Taylor: Exactly right. So some of our junior companies that are finding some nice good, big deposits might be acquisition targets of Newmont and some of the other bigger companies down the road, don't you think so?

Gordon: Yes, I do. It is still possible to find junior gold companies with an established gold resource in the ground who are trading in the low teens per ounces of gold in the ground.

Taylor: Given your dim view of our financial future, what kind of political changes and changes in the quality of life might Americans have to look forward to? During the last Kondratieff winter, in the 1930s, Roosevelt made it illegal to own gold under punishment of a \$10,000 fine and 10 years in prison. Do you think that is a possibility again in America, and if so, how would you advise our readers to protect their wealth stored away in gold?

Gordon: Taking the first part of the question first, I think if we look to the last depression to try to anticipate what kinds of things might happen this -coming Kondratieff winter, we should be very concerned. At the depth of the last depression, 25% of Americans were unemployed. There were huge amounts of banking failures, so much so that when Roosevelt assumed the Presidency, he shut down all the banks, and only those that were considered solvent were allowed to reopen. Things like the "New Deal" saw greater involvement of the U.S. government in the economy. So there was a greater encroachment by the government interfering with the way of life for Americans. I really don't want to speak to what the U.S. government might do to the U.S. ownership of gold. But we do know of course that it was confiscated by Roosevelt in the last depression. But at that time, the U.S. was on the gold standard.

Taylor: Richard Russell is asked this question frequently. He doesn't believe the U.S. government will confiscate gold again. He doesn't see that the U.S. government would have anything to gain from it, and the U.S. citizens would be angry, he thinks, if Americans in the leading democracy in the world are not permitted to own gold while everyone elsewhere is.

Gordon: Well, I think that they would gain from it, particularly if, as some think, there is no gold in Fort Knox. Confiscation would allow the Treasury to replenish its gold stock, just as it allowed President Roosevelt to do that in 1934. If indeed the U.S. does not possess the gold it purports to own, confiscation might happen, because I do believe the world will return to some form of gold standard at some time during this Kondratieff winter.

Taylor: And so as backing to the U.S. currency?

Gordon. Right.

Taylor: Well, the folks at www.gata.org think the actual amount of gold in the central banks is probably less than half of what is being reported

Gordon: I think the thing we have to understand is that the Kondratieff winter is always a desperate period in the cycle. During desperate times, people and governments do desperate things.

Taylor: Unfortunately, that sounds logical enough. Ian, before we let you go, I had a couple of questions my readers have asked me to ask you. The following was from Jeff Hagen, who asks, "Why must interest rate yields go down in this Kondratieff Winter? We keep hearing about the Fed increasing money supply, and how this will lead to increased interest rate yields. Which is it?" But I guess as we discussed earlier, your position is that interest rates are likely to go up during the early days of the Kondratieff cycle and that they won't go down until the back of the economy is broken.

Gordon: They have gone down, particularly on the short end, but as I have already noted, interest rates are likely to rise—as they did, by the way, between 1932 and 1933—because the dollar is in jeopardy, and the U.S. is too dependent on foreign creditors.

Taylor: Well, certainly foreigners who are owning U.S. dollars are getting hurt rather badly now with the dollar's steady decline.

Gordon: But of course the Chinese are not getting hurt because the renminbi is pegged to the dollar. But the Japanese are getting hurt very badly and are spending lots of yen in an attempt to push up the value of the dollar and hold down the value of the yen.

Taylor: And so I guess the rising interest rates that would follow a run out of the dollar could break the back of this economy and thus trigger the freezing point of the Kondratieff winter where the debt repudiation process begins in earnest.

Gordon. I think that is the likely catalyst.

Taylor: And, after the economy hits rock bottom and you have huge rates of unemployment and idle resources, then you could see interest rates coming back down I suppose. Just no demand for money or capital.

Gordon: Then as the banking system really gets into trouble—when you start to see major failures in the economy—you will see interest rates rise in the initial stages of the decline because companies borrow to try to stay alive, and creditors cut back on their lending because of rising risk. Companies with poor debt ratings will have to pay exorbitant interest rates, just to keep alive. Of course, that will be the cause of their demise. Tragically, interest rates rise in the face of rising bankruptcies, causing even more bankruptcies. It is only after all the bad debt has been washed out of the system—when the demand for money is very weak—that interest rates will start to fall.

Taylor: Another subscriber of mine, namely, Winston Bearkiller, asked the following question: "Given the Fed's excesses in the past year at enlarging the M's (various measures of money supply), what is the current status of debt relative to GDP? I no longer accept the \$35 trillion level as valid, given Mr. Magoo's (Alan Greenspan's) activities. Would you agree that money velocity reaching near zero would equal "the tipping point" where frank deflation actually occurs and we launch into the pit of depression?" It seems to me what Mr. Bearkiller is looking for here coinciding with a collapse in the velocity of money would take place after the debt repudiation phase has largely run its course don't you?

Gordon: At present, the debt to GDP is about 330% in the U.S. Actually the collapse in the velocity of money starts as the economy starts to fail. At that time bankruptcies start to rise, as does unemployment. Instead of spending, consumers start to save, and the velocity of money falls.

Taylor: Ian, would you care to make some predictions for our subscribers as we head into 2004 and beyond? I personally don't believe it is possible to predict a time frame for the gold price or equity prices. But perhaps over the longer term—during this Kondratieff winter, at what level do you think equity prices will fall? What about the dollar index? Do you still see parity for gold and the Dow?

Gordon: I think it's reasonable to anticipate the end result, because the Kondratieff cycle provides us with an incredible road map. It's much more difficult to give the time frame or the actual values of certain assets. All I ever do is use the last Kondratieff winter as a blueprint for what one might expect will happen this time. To this end, the Dow peaked at 381 in September 1929 and fell to 41 points by the end of June 1932. This was an 89% loss in price. A similar loss today would take the Dow to about 1300. However, one could come up with an even more frightening target. The 1921–1929 autumn bull market started with the Dow at 66 points. The ultimate bottom in 1932 at 41 points was 38% below the start of the great autumn bull market. The current cycle great autumn bull market started with the Dow at 777 in August 1982. A 38% target below that would see the Dow just below 500. 1300 points or 500 points, both would mean a horrifying economy. Of course, the Kondratieff winter does not project good news on that score, anyway. I have already given a potential price target for gold.

Taylor: One more thing. What about silver, which really seems to be coming to life recently? Do you still think investors should avoid silver in favor of gold given the fact that silver is more of a commodity and less of a monetary asset than gold?

Gordon: Well, I think silver may well become poor man's gold. Throughout history, gold and silver often acted together as money. It wasn't until Britain went on an exclusive gold standard system following the Napoleonic wars that bi-metalism ceased to function in the world monetary system, even though the U.S. retained both metals as money until the 1860s. The British currency denomination pound comes from a pound of silver. But silver has for some time taken on more of an industrial role, whereas gold has always been viewed as money. Nevertheless, silver may well resume a monetary role in the future. This being said, it is still valued at approximately 1/70th of an ounce of gold and is therefore cumbersome to store. One way I get around this dilemma is to purchase gold/ silver exploration companies. There are a number of excellent such companies.

Taylor: Yes, there are quite a few companies, mostly in Mexico, that are about 50/50 in terms of relative values of silver and gold.

Taylor: Alright Ian, this may be a good place to end our conversation, unless there was something else you wish to add?

Gordon: You asked me if you thought we would see a 1:1 relationship between the Dow and gold. Based on my predictions for the Dow and for gold in this Kondratieff winter, I think the relationship could be considerably less than 1 to 1. \$2000 gold and 500 Dow equals a quarter of an ounce to buy the Dow Jones Industrials.

Taylor: I want to thank you again for your willingness to share your thoughts with our readers. I'm sure our subscribers will, after reading this interview, have a very good understanding of where you think the U.S. and global economies are headed and why. In short, you are a stockbroker who has been a big help to more people than you can possibly know by simply viewing the global economic and financial landscape objectively. Where others have chosen to pick up a quick buck wherever they could find one and by doing whatever it takes to get rich with little regard for objective reality and the best interests of their clients, you have dared to take the path less traveled because it was the right path to take, rather than the expedient one in the short term. I thank God for your honesty and integrity and for sharing your insights with our readers, many of whom have also benefited from your work.

Contacting Ian Gordon – Because of U.S. securities laws, Ian is unable to sell securities to U.S. citizens. Investors outside of the U.S. can reach Ian at 604-643-0280. U.S. investors can open an account through Ian's colleague, **Rick Langer**, at Canaccord Capital in Vancouver, BC. Rick holds a Series 7 license and is thus able to sell Canadian stocks to American investors. Rick can be reached in Vancouver at 800-667-5771 or at 604-643-0113.

Our Model Portfolio gained 43.05% in 2003

J Taylor's Model Portfolio as of: 12/31/2003		
Category	Weight	YTD Gain
Quality "A" Gold Producers	16%	19.92%
Speculative Mining Shares	24%	142.61%
Essential Technology Stocks	6%	106.62%
Energy & Energy Technology	11%	219.93%
Gold & Silver Bullion	3%	21.67%
Prudent Bear Fund	15%	-13.02%
Prudent Global Income Fnd	17%	14.99%
Rogers Raw Materials Index Fd	7%	31.96%
Model Portfolio	100%	43.05%
S&P 500		26.38%

The year 2003 was another gratifying year for our Model Portfolio as it outpaced the S&P 500 43.05% to 26.38%. Our best performing sector was the Energy and Energy Tech sector, which gained 219.93%.

Ian Gordon was right when he predicted that the juniors would outperform the gold producers in 2003. That certainly was true for our portfolio. Gold exploration companies with "B," "C," and "D" progress ratings (as defined in our newsletter) gained 142.61% in 2003, versus a mere 19.92% gain for the gold producers. Hurting the producer average was AgnicoEagle Mines, which lost 18.8% in 2003. As this company irons out its technical difficulties, I believe it will become a strong performer again. Gold and silver bullion actually outperformed our average gold producer as those two precious metals gained an average of 21.67%.

Essential technology stocks performed well, led by **Composite Technology (OTC BB-CPTC-\$1.95)**. This energy tech stock will have some company from other energy tech stocks classified as "energy stocks" in 2003. Overall, all our tech stocks were up last year with the exception of Pro-Pharmaceuticals, which we added late in

2003. (See more comments on our Essential Tech Sector below.)

Clearly, the **Prudent Bear Fund (BEARX)** hurt our overall average in 2003 as the markets avoided an almost unprecedented fourth straight down year, losing 13.02%. However, we think chances are good that 2004 will once again be a down year for stocks. If so, the Prudent Bear Fund, which shorts the stock market, will resume its posture as one of the stronger asset categories in our Model Portfolio.

We also think the dollar will continue to come under considerable weakness vis-à-vis other paper currencies, so we are going to continue to own the **Prudent Global Income Fund (PSAFX)**, which buys high-quality bonds denominated mostly in currencies other than the U.S. dollar. While it gained just under 15% last year, we think it could do much better next year in the event the dollar begins a dramatic decline which we also think is a distinct possibility.

For the most part, we plan to stick with our existing portfolio throughout 2004. However, given our Kondratieff winter deflationary views, we will be watching the inflation hedge sector of our portfolio. In our view, energy stocks as well as the Rogers Raw Materials Index Fund could come under pressure if and when the debt-repudiation phase of Kondratieff winter spins out of control of the inflationary policy makers. But for now, various commodities, including energy, certainly do look strong.

Low Budget/Low Maintenance Portfolio +28.95%

Last year was a great year for stocks, as evidenced by a 26.38% gain for the S&P 500. However, our Low Budget/Low Maintenance Portfolio managed to outperform the S&P 500, gaining 28.95%.

J Taylor's Model Portfolio as of: 12/31/2003		
Low Maintenance		
Category	Weight	YTD Gain
World Precious Metals Fund	30%	76.91%
GoldMoney.com	5%	18.77%
Prudent Bear Fund	25%	-16.82%
Prudent Global Income Fnd	20%	12.36%
Global Resource Fund	20%	77.19%
Low Maintenance Portfolio	100%	28.95%
S&P 500		25.91%

This portfolio is intended to mirror our Model Portfolio to a great extent by using four mutual funds and

GoldMoney.com, and to do it with far less capital and far less attention than is required than if you owned part or all of our Model Portfolio. For information on how to buy the various funds in this portfolio, turn to the bottom of this message.

Our Model Portfolio for 2004

With the exception of reallocating energy tech stocks to our tech sector, we expect to retain our Model Portfolio as well as our Low Budget/Low Maintenance Portfolio pretty much the same, as we start 2004. We will fine-tune our investment strategy for 2004 in our January 3, 2004, hotline. Until then, best wishes for a Merry Christmas and a happy and prosperous 2004.

Technology, Energy, Precious Metals & Hedge Fund Scorecard

Equity	Exch	Ticker	P	Company Activity/Comments	Price	Initial	Initial	Price	2003	Overall	Buy/
					12/31/02	Date	Price	11/10/03	% Gain	Gain	Hold
Technology Stocks											
Composite Technology	O	CPTC	A	Greatly enhances power grid capacity for elec. Util	\$ 0.34	6/6/03	\$ 0.34	\$1.95	473.5%	473.5%	Buy
Flexible Solutions *	A	FSI	A	Patented Water Saving Technology	\$ 3.45	3/16/02	\$ 2.65	\$4.96	43.8%	87.2%	Buy
International Wex Tech *	C	WXI	B	Pharmaceutical - Near commercial detox drug	\$ 1.44	11/5/99	\$ 0.59	\$4.55	215.7%	674.2%	Buy
Itronics Inc. *	O	ITRO	A	Photo waste recycled to silver & fertilizer	\$ 0.10	3/1/97	\$ 0.10	\$0.15	53.1%	50.0%	Buy
McKenzie Bay Int'l *	O	MKBY	B	Vertically integrated vanadium tech energy Co.	\$ 1.07	3/25/00	\$ 2.00	\$2.60	143.0%	30.0%	Buy
Pro-Pharmaceuticals	A	PRW	B	Improved Chemotheory Drug - Phase I Trials	\$ 5.50	8/19/00	\$ 5.50	\$3.95	-28.2%	-28.2%	Buy
Average Gain (Loss) on Technology Stocks (Including closed positions) =====>									150.15%	214.45%	
Energy Stocks											
International TME Resc. *	C	ITME	A	Small Texas gas producer & development project.	\$ 0.06	6/29/02	\$ 0.08	\$0.42	600.0%	425.0%	Buy
NCE Petrofund *	A	PTF	A	Oil & gas royalty trust in Western Canada	\$ 6.90	1/1/02	\$ 7.54	\$14.46	131.4%	126.2%	Buy
Nevada Geothermal Power	C	NGP	C	Nevada Geothermal Electricity Project	\$ 0.25	1/1/02	\$ 0.14	\$0.26	5.8%	90.1%	Buy
McKenzie Bay Int'l *	O	MKBY	B	Vertically integrated vanadium tech energy Co.	\$ 1.07	3/25/00	\$ 2.00	\$2.60	143.0%	30.0%	Buy
Environmental Power Co.	O	POWR	A	83 Mw waste coal-fired electric generation	\$ 0.20	1/1/02	\$ 0.20	\$0.90	350.0%	350.0%	Buy
Tidelands Oil & Gas Corp.	O	TIDEE	B	Nat. Gas Pipeline to Mexico - Near Production	\$ 0.35	5/3/03	\$ 0.35	\$2.05	485.7%	485.7%	Buy
Transcanada Corp.	N	TRP	A	Natural gas transmission and electric generation	\$ 14.51	1/1/02	\$ 12.46	\$21.51	52.6%	53.9%	Buy
Average Gain (Loss) on Miscellaneous Stocks (Including closed positions) =====>									252.64%	223.0%	
Precious Metals & Hedge Funds											
Gold *	N/A	N/A	N/A	The Best Money Ever Discovered by Humankind	\$ 347.50	12/3/90	\$ 390.00	\$415.20	19.48%	6.5%	Buy
Silver *	N/A	N/A	N/A	2nd Best Money Ever Discovered by Humankind	\$ 4.78	11/15/97	\$ 5.29	\$5.92	23.8%	11.9%	Buy
The Prudent Bear Fnd *	O	BEARX	A	David Tice - Hedge fund for small investors	\$ 7.55	9/25/99	\$ 4.37	\$6.23	-13.0%	155.1%	Buy
The Prud Global Inc. Fund *	O	PSAFX	A	David Tice - Hedge Against the U.S. dollar	\$ 11.80	5/20/00	\$ 9.48	\$13.27	15.0%	140.9%	Buy
Rogers Int'l Raw Materials	O	N/A	A	Rogers Raw Material Index Fund	\$ 5.980	5/6/02	\$ 5.067	\$7.891	32.0%	55.7%	Buy
The Tocqueville Gold *	O	TGLDX	A	John Hathaway - Gold Share Fund	24.20	4/6/02	\$ 19.62	\$34.61	43.0%	76.4%	Buy

TECHNOLOGY & ENERGY STOCKS FOR 2004

At the start of 2004, we are going to extract what we call energy technology stocks, like McKenzie Bay International, Nevada Geothermal Power, and Environmental Power, and place them into our "Technology" sector. These stocks will join Composite Technology as "energy technology" stocks to be included within our overall Technology Sector.

Although these stocks are energy stocks, they also are technologies that reduce the cost of producing an *essential* good or service. As such we will link them with other companies that reduce the cost of producing or marketing life's essentials such as water, food, and medical care.

So, at the start of 2004, our energy sector will be comprised of traditional oil and gas companies, two of which pay good cash returns (**NCE Petrofund** and **Transcanada Corp.**). The other two companies in our energy sector will be **International TME Resources**, which now has a royalty interest in more than three million acres in Australia in two of the most prolific oil and gas basins there, and **Tidelands Oil & Gas Corp.**, a Texas-based natural gas pipeline operation that has just begun selling natural gas into Mexico.

Energy and energy tech stocks performed better than all the other sectors in our portfolio last year. Folks like James Tu, Jim Rogers, and Bill Powers all explained last year in our interviews with them why they are so bullish not only on energy, but on commodities in general. Indeed, it is true that we are seeing a surge in demand from China as wealth is reallocated from the west to the east. It is also true that the supply side of many commodities has not been expanded for many years and in some cases for several decades. And so, it would stand to reason that commodity prices, including prices for oil and gas, should remain very strong.

Deflation Still My Concern for Commodity Prices

There is one potential fly in the ointment that I see for the bullish case for commodities, and that is DEFLATION as defined by the Austrian economists to mean a contraction in the money supply. Yes, I know that our controlled media has stopped talking about deflation for now. But the inability of prices to rise substantially overall in the face of the most enormous monetary and fiscal policy on record, suggests in my opinion, that Ian Gordon's view of the Kondratieff winter is very much alive. Ian notes that in the autumn we have declining rates of inflation (disinflation) because the debt begins to drag the demand side of the economy down. And as we progress into the Kondratieff winter, which we did with the stock market peak in 2000, the deflationary forces continue to build and then eventually, when debt defaults begin to lead to an uncontrollable string of debt defaults throughout the economy, you begin to see an outright contraction of the money supply and plunging prices.

In our interview with Ian in our January 2004 issue, we will get a chance to ask him if he still believes these same debt dynamics are in place now. I suspect he will say they are, so that to Ian, the recent news that year-over-year consumer prices have now reached a 40-year low has come as no surprise at all.

What happens, then, to commodity prices when debt defaults and thus debt deflation begin to spin out of control? In the past, Ian pointed out that even the mini debt depression of Asia resulted in the price of oil falling to \$10/barrel. What would happen to commodity prices if another Great Depression comes our way, as we think it will in the not-too-distant future?

Technology for a Depression

I suspect we could see across-the-board weakness not only in energy, but also in all commodities—which is why we will keep an eye on the Rogers fund, which includes technology. As long as commodity prices are rising, we will keep the traditional tech stocks on our list. However, if we believe this deflationary scenario is beginning to take hold, we expect to sell our traditional energy stocks—the ones we leave in our energy sector at the start of 2004.

But what about energy technology stocks? Here is my thinking on this sector. If **McKenzie Bay** can cut the cost of providing electricity for individual buildings, the demand for this service will skyrocket while demand for traditional, higher-cost energy sources will decline very significantly.

The same line of thinking remains in place for our other energy technology stocks. Here is a brief description of our tech stocks and how they may be well equipped not only to survive the Kondratieff winter but to actually thrive.

Composite Technology (OTC BB–CPTC–\$2.21) – CPTC has developed a breakthrough, enabling composite technologies and manufacturing processes for products applicable to the global electrical utility industry. The company's initial product is a patent-pending composite reinforced conductor known as **ACCC** (Aluminum Conductor Composite Core) cable. Follow-up products to be introduced by CPTC include electric line support structures such as composite utility poles and transmission towers, as well as composite wind turbine support structures.

ACCC cable can provide up to two times the amount of electric power, using existing transmission and distribution systems' support structures when compared to conventional steel reinforced cables, and maintenance costs are expected to be considerably lower than for conventional power lines. It was recently announced that the company's cable technology is being fitted on to a 21-mile-long grid by the City of Kingman, Kansas, so this technology is now being commercialized. We think this could be a huge success story in the years to come. 949-756-1091 and/or www.compositetechcorp.com

Environmental Power Co. (OTC BB–POWR–\$0.87) – This company owns a technology that is proven to be effective in Europe for the conversion of animal waste to methane gas-fueled electric plants. These operating plants will solve waste problems for farmers, pay them some income for that waste, and the plants will generate electricity to be used by the farms and small communities. 603-431-1780 and/or www.environmentalpower.com

McKenzie Bay International (see below) Contact act the company at 616-940-9194 and/or www.mckenziebay.com

Nevada Geothermal Power (Toronto Venture–NGP–\$0.23) – This company's technology is not new or unique, but once capital costs are met, it provides a very low-cost, renewable form of electricity generation that should be welcome in the midst of the upcoming economic depression. 604-688-1553 and/or www.continentalridge.com

Other Tech Stocks

Flexible Solutions (American–FSI–\$4.74) – This company’s one-atom-thick, bio-degradable, environmentally-friendly patented product helps conserve water supplies for municipalities as well as for local users, and thus cuts costs significantly. Water is quickly becoming one of man’s greatest problems. This company can help in a major way to solve this problem, and in my view it is on its way to making a difference (though only in a small way—so far). FSI has earnings, and I think those earnings could be very explosive in the years to come. 250-477-9912 and/or www.flexiblesolutions.com.

International Wex Technologies (Toronto Venture–WXL–\$4.34) – This company’s use of a naturally occurring compound in blow fish is used in manufacturing a family of drugs that can reduce pain, help treat opium addiction, and work very effectively as a local anesthesia. The drugs should reduce medical costs, and all indications so far are that the application for killing pain as a sodium channel blocker is more effective than any other drug on the market. The drug is being tested now in Canada as a painkiller for advanced-stage cancer patients and for other patients who do not respond to existing painkilling drugs. 604-683-8880 and/or www.wextech.ca.

Itronics Inc. (OTCBB–ITRO–\$0.16) – This company converts hazardous waste from photochemical users and produces two very useful products, namely, silver, and a proprietary liquid fertilizer named GOLD’n GRO that is resulting in a major increase in crop production. Sales have been slow in coming, as farmers and sales folks have been reluctant to use a new technology on their crops when their very financial lives depend on crop success. But sales of this new product are now starting to grow rapidly, and increasing amounts of data that prove the effectiveness of this product are starting to be more and more available. This product has proven to be very cost effective, compared to other fertilizers, in boosting crop production and thus in reducing the cost of producing fruits, vegetables, and a host of other farm crops as well. The time this company has taken to reach profitability has been a disappointment, but progress is being made, and 2004 could well be the year when ITRO’s financial situation turns the corner especially with some of its newer products—like the one that retards animal consumption of shrubbery and garden vegetables. 775-689-7696 and/or www.itronics.com.

PRO-PHARMACEUTICALS INC (American–PRW–\$3.95) – This company’s DAVANAT-1 drug is a combination of the highly effective chemotherapy drug 5-FU and DAVANAT, a carbohydrate compound named after Dr. David Platt and Dr. Anatole Klyosov, the two scientists who developed it. It is a sugar that looks for specific receptors found only on the outside walls of cancer cells. This particular carbohydrate is attracted to the lectin Galactin 3.

DAVANAT encapsulates the anti-cancer drug prior to binding to the over-expressed lectin receptors and guides them to the nucleus of the cancer cells. When inside the cancer cell, the anti-cancer drug cleaves from DAVANAT and destroys the cancer cell. By encompassing the anti-cancer drug, DAVANAT prevents the drug from being absorbed by normal healthy cells, thereby reducing the anti-cancer drug’s overall toxic effects on the body.

In pre-clinical trials on mice, 400 percent greater levels of the cancer drug 5-FU effectively targeted tumors in mice injected with DAVANAT-1. Since the healthy cells were left alone, side effects such as nausea, hair loss, and fatigue were minimal. All of the patients invited to participate are considered refractory patients, meaning this is their last hope. They are in advanced stages of cancer, and its conventional treatments—radiation, surgery, and chemotherapy alone—have failed them.

DAVANAT-1 is obviously in an early stage in the marketing and approval process. In theory, the drug could cut costs if it proves to be more effective in not only reducing cancerous growth but also if it lessens durations of hospital stays. The stock has a very small float, and the company enjoys some heavy-hitter support. 617-559-0033 and/or www.pro-pharmaceuticals.com.

Our Top Stock Pick for 2004

McKenzie Bay International (OTC BB – MKBY - \$2.50)

This company’s “WindStor” device combines state-of-the-art wind-generated electricity and a state-of-the-art vanadium-based energy storage system and then integrates those two combined technologies with local power grid systems and a diesel back-up power generator to significantly reduce electricity costs for large buildings. Thanks to the ability now to efficiently store wind and solar-generated electricity so it is available for use on demand, MKBY’s WindStor system, which is now being sold to large building operators in the U.S., provides building owners with the following significant advantages: (1) No up-front capital costs because WindStor systems are leased, not purchased; (2) Immediate savings on electricity bills between 5% and 20% because the system is constantly recharging its energy storage units, using the least expensive source of electricity around the clock; (3) Elimination of costly brownouts, for which there is no longer business-interruption insurance; and (4) Elimination or great reduction of damages from extended power outages like the great blackout of 2003 in the northeastern U.S.

McKenzie Bay has a vertically integrated operation from its vanadium mine in Quebec (the second largest in the world), to patented low-cost production of high-purity vanadium required in state-of-the-art energy storage, to ownership of state-of-the-art wind mill technology, and finally to WindStor marketing capability with McKenzie Bay operating as a local power company or as a lessor of the equipment to the building operator. Operating revenues should begin to flow in 2004 from contracts already signed. I am expecting a fairly dramatic growth in 2004 especially as the first unit or two become operational. The company could get a gigantic boost from a marquee contract anticipated for the construction of wind turbines atop the Freedom Tower in NYC should give this company's business a major push. Two factors lead me to believe McKenzie Bay could land this contract. First, this company has the state of the art technology for wind generated power units for building tops. Secondly, a couple of recent articles have talked about vertical axis windmills. McKenzie Bay is the only company I know of that has windmills that rotate on a vertical axis. But whether or not MKBY lands the new World Trade Center Windstore contract or not, I expect these shares will perform very well as Wall Street becomes familiar with this story book stock in 2004. Tel. 616-940-9194 and/or www.mckenziebay.com

Our Top 15-Gold & Silver Mining Picks for 2004

A wealthy investor from California frequently contacts me to ask what my top ten or fifteen picks are. I always hate that question not so much because I'm afraid some of the stocks on my list might be disappointing, (though that is always a risk) but more because I might leave the company with the next major find off the list. When it comes to picking mining stocks, especially those in the hunt for gold deposits, the selection process is always, to a fairly great degree, subjective because no one knows what is under the ground until drill holes are put down and even then many unforeseeable continue to exist.

In fact, I was forced to come up with a list because I simply didn't have enough space to reproduce all of the comments I made in the two hotline messages delivered toward the end of December 2003. The stocks that made our top 15 list for 2004 from our overall list of gold and silver stocks were selected primarily on the basis of their cost relative to your editor's subjective upside view. Many if not most of the stocks on our overall list are larger cap stocks that are already producing gold or which have one or more advanced stage projects that are in many if not most instances is superior to those more speculative companies that made our top 15. Two years ago, I would have been inclined to choose those more established companies. However, given my firm belief that we are in the very early stages of a major bull market in gold, I hold the firm conviction that the penny gold stocks selected for our top 15 will be among the biggest percentage winners over the next year or two or three, even if some or most of them never discover projects that eventually become mines. In the more favorable environment for mining, small cap companies can raise the capital to explore and most often, their discoveries add more intrinsic value vis-à-vis market capitalization than do larger cap producers. So, our criteria for selecting our top 15 gold stocks for 2004 was based on the price of these issues vis-à-vis your editor's highly subjective judgment of exploration potential. The move toward favoring exploration stocks over producers has evolved with a rising level of confidence that we are in a long term bull market for gold and hence that these generally more risky companies will be able to fund exploration programs. We will continue to look for more of these kinds of stocks as we head into 2004, but for starters I think we have some real good ones for you to consider buying though let me remind you once more, **always with the caveat that you never allocate more than 5% of your portfolio to any one stock at the time of purchase.**

CANGOLD LTD. (TORONTO VENTURE-CLD-\$0.22) - In addition to Cangold's very low price and still very low market cap, Cangold has options to earn an interest in two very solid exploration projects. First, it has an option to earn a 51% interest in the past producing Argosy Gold Mine in Ontario. Recent work established the extension of gold mineralization below the level from which prior production came. Moreover, this property has very considerable exploration potential beyond the known mineralized zones.

A second reason I like the shares is because of the company's Thorn property located in northwestern B.C. Some very strong gold, silver, and copper assays from vein systems on the property have been discovered, such as: 1) the **MP Vein** (0.75g/t Au, 224g/t Ag, and 8.73% Cu over 0.5m); 2) The **Tamdhu Vein** - 4.17g/t Au, 320g/t Ag, and 1.25% Cu over 2.1m; 320 g/t (9.4 oz/ton) Ag, 4.2 g/t Au, and 1.26% Cu over 2.1m 3) The I Zone (9.28g/t Au, 760g/t Ag, and 0.3% Cu over 0.7m) 4) A Boulder (22.13g/t Au, 2414g/t Ag, and 12.05% Cu and 5) another Boulder (13.84g/t Au, 2900g/t Ag, and 32.80% Cu) 6) A new discovery, the **Glenlivet Zone**, comprises a number of quartz-pyrite-sericite veins approximately three meters wide and was discovered in outcrop near the F Zone. Grab-samples from either end of the Glenlivet Vein returned 2580 g/t (75.4 oz/ton) Ag, 20.39 g/t Au, 23.9% Cu, and 1170 g/t (34.3 oz/ton) Ag, 2.97 g/t Au, and 12.4% Cu.; 7) A large breccia was discovered following up on a soil geochemical anomaly. Based upon the size of the anomaly and a few outcrops, the **Oban Breccia** is estimated to be about 300 meters across. The discovery boulder consisted of massive silver-lead-zinc mineralization, and returned grades of **6,149 g/t (179 oz/ton) silver, 3.5 g/t gold and 43% lead.**

These are some rather exciting numbers for this property and I think justifiably spark some hope for the discovery of a world-class, high sulfidation deposit like the El Indio Mine in Chile, which reported past production and reserves of 6.2 million

ounces gold and 2 billion pounds of copper. Another similar deposit is the Lepanto Mine in the Philippines (3.7 million ounces gold and 2 billion pounds copper). There are approximately 37.8 million shares outstanding, and if all warrants are exercised, the company would have approximately 61.2 million out. But that would put almost C\$5 more in the till to finance exploration. But with this stock priced at such a low level, this company's market cap remains miniscule. Assuming more good drill results on either or both of its properties, I believe CLD could be one of our bigger percentage winners in 2004. Telephone: 604-608-1766; Web: www.cangold.ca.

CANARC RESOURCES (TORONTO VENTURE-CCM-\$0.65) – Canarc has interests in Eskay Creek in B.C and also in the New Polaris gold mine in northwestern B.C. This project is a million plus ounce high-grade gold deposit and with new infrastructure and access coming into this remote area and with gold prices on the rise, this project is looking more and more promising over time. Canarc also has interests in Mexico and Costa Rica. All of these properties are of value and will become even more valuable if the price of gold continues to rise as we expect. But the property that could turn Canarc into a household name is the Benzdorp gold deposit in Suriname, South America. In my view, this project has the potential to become a very large open-pit, low-grade, low-cost, multi-million-ounce gold deposit and as exploration work is ongoing, that kind of picture could begin to come more clearly into focus in 2004. Telephone: 604-685-9700; Web: www.canarc.net.

EMGOLD MINING CORP. (TORONTO VENTURE-EMR-\$0.84) -- This company has perhaps one of the most unknown gold mining stories in North America. Its Idaho-Maryland high grade underground mine in California Mine produced 2.4 million ounces of gold in the past and it may well have the potential to produce that much more in the future. Production in the past took place to a depth of 1,500 ft. but management believes gold mineralization most likely takes place at much deeper levels than that. In fact, management is planning to drill down to a depth of 5,000 ft. to test its geological model. Scoping studies in the past have suggested highly robust economics with average annual gold production of around 100,000 ounces per year at a cost of \$167/oz. and capital costs of around \$45 million. Drilling can take place in and among the 72 miles of underground tunnels in this past producer. This remains one of your editor's favorite junior gold stocks. 604-662-4506 and/or www.emgold.com

EXCELLON RESOURCES INC. (TORONTO VENTURE-EXN-\$0.17) – This Canadian junior mining company is focused on mineral exploration and development of high-grade precious and base-metal opportunities throughout Mexico. Currently the company's major focus is exploring the Platosa deposit, an advanced project exploring a very high-grade, silver-rich, carbonate-hosted base-metal replacement system located in Durango State. The initial discovery of covered mineralization was made through drilling in late 1999 and continues to the present. Lead, silver, and zinc values in the initial discovery are worth well over \$200 per ton and have provided the basis for driving a decline into this zone with the expectations that this high grade value will provide some meaningful cash flow that can be used to explore for the main body of what is currently believed to be only the tail of a very large deposit. There are some 67 million shares outstanding, but with a price of only around US\$0.15, this company still has a miniscule market cap. A discovery of the major portion of this deposit would justify very significantly higher prices. 416-364-1130 and/or www.excellonresources.com

GEOCOM RESOURCES (OTCBB-GOCM-\$1.48) – A fair number of our subscribers are investors in this company, so, with the stock down sharply from its peak, we are frequently asked whether we think it should still be held. As the stock rose toward \$2.00 and then toward its very temporary peak of \$3.50, I was suggesting to subscribers that I wouldn't pay any more than \$2.00. At this point in time, that is still my position. However, I continue to believe this stock has major upside potential, given its various gold exploration targets—any one of which could host a major gold deposit.

I believe the main reason the Geocom share price has not acted particularly well lately is because the company has simply not had the kind of news to put out that drives share prices higher. That is not to say Geocom is not making progress. To the contrary, it has acquired two very promising gold properties in Chile via staking, and it has been carrying out surface work to establish drill targets not only on those same Chilean properties but also on the Argentine property, where a 380,000-ounce resource has already been established. Some exciting drill assays from any of these properties, which could well be coming later this year, should revive this company's share price very considerably. As far as I'm concerned, the lower the stock goes now, the more attractive it is for purchase. This story is considerably more solid now than when I suggested this company could be a "10-bagger" based on its exploration potential. However, subscribers need to be aware that exploring and developing a mine is a multi-year process. That is not to say that you have to wait until the mine is in production to maximize your gains. To the contrary, junior gold stocks most often have a significant run to their highs long before a mine is placed into production, and then as a project reaches the feasibility stage and heads toward production, its share price of ten levels off or even declines.

With four properties now in its portfolio, Geocom has many "kicks at the can" so that if one fails there will be more opportunities. So far, none have failed. In fact, the result from a potentially monster project, the Iliamna in Alaska, was very encouraging. That property is south of Northern Dynasty's Pebble deposit, which is shaping up as potentially one of the very largest gold/copper porphyry targets in the world. Geocom also has a monstrous porphyry property, and the company did establish last summer from the first couple of drill holes that it does contain copper and gold. Only time will tell if it has economic grades of copper and gold, but if it does, this property could very well provide the justification for Geocom's

becoming a “10 bagger.” This company’s price is down but there is no reason to be discouraged. With drilling expected to get underway in a few weeks on the Argentine and Chilean properties, a flow of good news that could drive this stock to much higher levels could be right around the corner. 360-392-2898 and/or www.geocom-resources.com.

GOLDEN PHOENIX MINERALS (OTC BB-GPXM-\$0.41) - Golden Phoenix Minerals, Inc. is a mineral-property development company headquartered in Reno, Nevada. It specializes in acquiring and consolidating large, advanced-stage properties with near-term production and good exploration potential. Acquisition and development emphasis are on deposits containing gold, silver, copper, and other strategic minerals that are located in Nevada and the western United States. The company’s key assets include the wholly-owned Mineral Ridge gold mine, the Borealis advanced stage gold-silver project which has been joint ventured to Gryphon Gold, and the Contact copper-silver project and the new Ashdown gold-molybdenum project, on which Golden Phoenix has acquired in interest in by becoming the project manager. With slightly over 100 million fully diluted shares outstanding, GPXM isn’t the least expensive stock on our list. But given all this company has going for it, including: (1) Two projects with multi-million-ounce production (Mineral Ridge); (2) The Contact copper/silver/moly project, which at least one geologist considers to have “Grassberg-like” potential; and (3) Cash flow now from gold production at Mineral Ridge; and 4) A management team with considerable operating experience, we think this is one of the most attractive small emerging producers on our list. The mine operating skill set this management has is likely to become even more desirable over time as deposits too small for major companies to put into production will need management teams capable of doing that. Golden Phoenix has such a management which has already resulted in this company gaining a 30% interest in the Ashdown gold-moly project without having to spend any of its own money.

As noted earlier, the markets seem to penalize operating companies by not giving them their full due for exploration potential. I believe that is true of GPXM as well. However, knowing this management team as I do, I think you will see this company actively increasing its gold resource at the same time it expands gold production rather dramatically from its present estimated 10,000 ounces per year. GPXM remains a favorite of mine given upside potential for this company to grow into a medium sized gold producer starting immediately. 775-853-4919 and/or www.golden-phoenix.com.

MAG SILVER CORPORATION (TORONTO VENTURE-MAG-\$1.79) – We think this company has a shot at becoming one of the truly outstanding silver exploration companies in North America. The company controls 100% of the Juanicipio property adjacent to the Fresnillo District in central Mexico, from which over 12% of the world’s silver is produced from high-grade underground vein structures. Six drill targets are permitted, and site preparation has begun. Drilling commenced in May 2003, and has successfully encountered Fresnillo-style mineralization. It appears as though MAG may have encountered the extension of this monstrous high-grade structure.

MAG also controls the Guigui project, believed to comprise the source stockwork for the Santa Eulalia District near Chihuahua, Mexico, known to encompass the world’s largest carbonate replacement deposit. Although the Santa Eulalia District has produced over 450,000,000 ounces of silver historically from a series of high-grade deposits, its source stockwork and any associated contact skarn have never been identified. MAG benefits from the advanced, highly sophisticated work previously performed by its technical consultants, delineating the immense target believed to constitute that stockwork and related skarn. Over 40 drill pads have been permitted, and drilling will commence in the fall of 2003.

The Batopilas District comprises MAG’s third high-grade silver target. Another historic mining district, Batopilas provided 300,000,000 ounces until its abrupt closure during the Mexican revolution. Consolidated by MAG for the first time since the revolution, the Batopilas District will yield numerous high-grade targets through the use of modern exploration techniques. Native silver in calcite, grading up to 70% silver, comprised the principal target mineral historically. Sophisticated exploration will delineate additional high-grade targets. Your editor has a very high opinion of this management team and thinks the odds are high that this company will hit big on one or all of its Mexican silver targets. If so, this company’s shares will have only begun to run at their current price of \$1.79. 604-634-1399.

NEW GUINEA GOLD (TORONTO VENTURE-NGG-\$0.43) – If there were one speculative stock I would encourage everyone to allocate up to 5% of their portfolios to, it would be NGG. The company has an agreement with Macmin Silver Ltd to acquire gold and gold/copper projects in Papua New Guinea (PNG), most of which, based on results to date, are considered to have world-class potential, i.e. plus three million ounces of contained gold or gold equivalent. Cash flow from modest levels of gold production is expected to commence in 2004. This story is too long to begin to tell in this summary, so do yourself a favor and contact the company for more information prior to a more comprehensive review from ourselves in a few weeks. **604-662-3598** and/or www.newguineagold.ca.

NORTHERN DYNASTY MINERALS (TORONTO VENTURE-NDM-\$4.04) - I believe the market has not yet begun to understand just how enormous this company’s Pebble gold/copper porphyry project is. In my view, this is not only a world-class gold/copper deposit in the making, but in the not-too-distant future, I believe it will rank among the top two or three such projects in the world. And get this. Only 5% of the prospective ground on this deposit has yet been explored! In the view of the management of this company, there may well be more than one gold deposit outlined on the enormous Pebble Property. I couldn’t be more bullish about this company than I am now. I recommended this stock back on January 1, 2002, at US\$0.26, so

its up a whopping 1,454%. It may sound crazy, but given what I know now combined with rising gold and copper prices, I think NDM may be as good a buy now as it was then, thus allowing this stock to make our top twenty-five list despite its price which is considerably above most others on this list! Visit www.northerndynastyminerals.com or call 800-667-2114.

IMA EXPLORATION (TORONTO VENTURE-IMR-\$1.34) – IMA Exploration Inc. is a Canadian gold exploration company focused on Argentina and Peru. The company's properties cover some 2,000-square-kilometers. So far, the most spectacular success has come from the Pagagonia property in Argentina where a bonanza grade silver-copper-lead discovery has been announced on the Navidad property. Mineralized structures have been defined over a cumulative strike length of approximately 636 meters, with widths typically from one to three meters grading 162 ounces per tonne silver, 3.8% copper, and 9.8% lead. The shares of IMA have come back a bit on recent drill results from the Navidad that were not perhaps what some players in the market were expecting. However, we view those results as being highly positive. As one experienced exploration geologist remarked to me last year, the Navidad is going to be a mine. The only question is how big and how rich will it be. So here you have an upstart junior exploration company with one mine already in the making and a large number of other highly prospective exploration targets on which to explore during this bull market. However, the company has many other highly prospective properties. For example: 1) Barrick Gold Corporation has an option to select one of two IMA properties located beside Barrick's Pascua-Veladero discoveries (resource of 36 million ounces gold, 750 million ounces silver) in San Juan Province, Argentina. 2) IMA's holds a 100% interest in the Mogote gold exploration project in San Juan Province, Argentina, which covers a very large and strong porphyry or high-sulfidation gold target and 3) IMA retains a 2% net smelter right royalty (NSR) on Viceroy's interest in Gualcamayo (resource of 1.35 million ounces of gold). IMA also holds several properties adjacent to, or in close proximity to, the Gualcamayo discovery. And in Peru, IMA holds a 100% interest in its Rio Tabaconas high-grade gold project, where Phase I drilling intersected 18 grams per tonne gold over 16.4 meters. IMA remains one of my favorite junior exploration stocks. 604-687-1828 or 800-901-0058 (toll free); and/or www.imaexploration.com

PACIFIC RIDGE EXPLORATION (TORONTO VENTURE-PEX-\$0.23) – The company's most advanced gold property is the Golden Arrow, located within the Walker Lane belt of the Tonopah mining district in Nevada. The Midway Gold project operated by Newmont lies 40 kilometers to the northwest within the Walker Lane belt. The Golden Arrow property is described as a, epithermal volcanic-hosted gold-silver mineralization system. Nearly vertically dipping, high-grade feeder systems have been identified with lower-grade mineralization spread out around those higher-grade feeders. These kinds of deposits are frequently amenable to low-cost, open-pit bulk mining. At Golden Arrow, prior drilling has defined two open-ended bulk tonnage targets with reported values of 1.7 grams/gold (0.05 oz./ton) over 109 meters. Management has identified three target areas on the Golden Arrow property, each of which are sizeable, and commercial grade samples have been taken from each of these zones. Your editor has a high regard for the management of this company. Great exploration targets combined with strong management and a still-miniscule market cap make this one of the more appealing penny gold exploration stocks on our list. 604-687-4951 and/or www.pacificridgeexploration.com

PMI VENTURES (TORONTO VENTURE-PMI-\$0.49) – This company holds a HUGE land position in an area of the world—West Africa—where some very substantial gold mines appear to be in the making. Specifically, PMI is involved in Ghana, where three major gold-mining firms are in the process of spending some \$3 billion to explore and develop their gold properties in that country. If PMI is successful in exploring its enormous and highly prospective claims in that country, there may be reason for these “big boys” to spend even more in Ghana. PMI has an option to earn up to 85% of the interest that Goknet Mining Company Limited, a privately held Ghanaian mineral exploration company, holds in nine exploration concessions and applications. Goknet's interests vary from 85% to 100%, subject to a 10% non-participating interest in favor of the Government of Ghana.

PMI controls a 50-kilometer-long portion of a gold belt that has the potential to replicate the riches of the adjacent trends. Millions of dollars were previously invested in the property by several companies, on a piecemeal basis. Now much of the information gained from this prior work is available to PMI, which has had the good fortune of assembling its tremendous land package over the past six years when few people were at all interested in gold exploration targets. PMI has been assembling geological data acquired from the past to help establish their efficient drill targets. At this early stage of drilling, results have not been disappointing. For example, in its press release of December 2, 2003, the company announced that it had again intersected very significant high gold grades (27.0 g/t Au over 4.0 meters) in the ongoing drill program on its Fromenda concession—one of nine contiguous concessions that comprise the Ashanti II project area, said concessions being located along a 50-kilometer length on the axis of the Asankrangwa Gold Belt of southwestern Ghana. This hole bottomed in gold mineralization, as the rotary drill was not able to proceed beyond 41 meters in depth. This was the first hole to be drilled along a 1.5 kilometer gold and arsenic soil geochemical anomaly, which parallels the gold mineralization outlined to the east, and also confirms that this structure hosts potentially economic gold grades. In that same press release, on another zone known as School Zone North, near-surface intersections ranged in length from 13 feet to 52 feet and graded between 0.03 oz. gold/ton to 0.09 oz. gold/ton. The gold-mineralized intervals appear to be near vertical and suggest a wide and deep-seated gold bearing target. An additional fence of holes located 50 meters to the north is in progress, and the results will be announced when

received. Further deep drilling on this large zone is anticipated in the New Year, after completion of the deep sounding geophysical program. What I see here is the potential for one or more really big gold discoveries in the months and years to come. With only a little over 6 million shares outstanding, this company's market cap is an ultra-miniscule \$3 million. Given its extremely low market cap, the enormous prospective land position, early exploration success, and a very solid and competent mine exploration team, PMI definitely is one of the most undervalued and most exciting penny gold exploration stocks on our list. 604- 682-8089 and/or www.pmiventures.com

SOUTHERN RIO RESOURCES LTD. (TORONTO VENTURE-SNZ-\$0.19) – This company owns or has the option to earn a 90% to 100% interest in seven projects in Canada. Six of the company's projects are located in British Columbia, the seventh in Ontario. The company recently raised \$100,000 in flow-through funds for a late-summer exploration program of prospecting and sampling on all four of its projects in the Nechako region, with a continued focus on advancing the 3 T's gold-silver project. On December 11, management released some very strong assays from one of the 3 T's properties, namely from the Tam property. On that property the first two holes drilled revealed the equivalent of 4.66 grams/ton gold equivalent over a 11.5 meter width. A second hole scored 9.92 grams gold over a 17-meter width. It appears as though gold mineralization is getting richer at depth. This stock is one of the least expensive on my list. With just 27.1 million shares out and a \$0.19 share price, we are looking at a miniscule market cap of just \$5 million. Management has barely begun to explore its various highly prospective properties, and with respect to its chances for success, I need to bring up the name of the company's president, Lindsay Bottomer, who has had a strong track record for sniffing out gold mineralization. This is another of quite a few highly prospective junior gold stocks on our list that I think could quickly become a "ten bagger" with more exploration success in the current bullish gold market environment. 604- 687-3959 and/or www.southernrio.com

SULTAN MINERALS INC (TORONTO VENTURE-SUL-\$0.17) – The primary property of interest for this company is the massive Kena property, where exploration and data compilation by Sultan have identified 11 gold-bearing zones. These are the Gold Mountain, Kena Gold, Shaft, Cat, South Gold, Three Friends, Euphrates, Gold Cup, Great Western, Tough Nut, and Cariboo Zones. The Kena Property and contiguous properties staked and optioned during the year, covering approximately 7,700 hectares of land situated 45 kilometers north of the Teck Cominco Limited smelter at Trail, British Columbia. Infrastructure in the area is excellent, and a power line, rail bed, and major highway pass through the center of the property. Recent drill intersections suggest the potential for an open pit deposit, and numerous bonanza-grade gold intersections also suggest the potential for high-grade underground deposits. The company is well funded and as such should be able to produce some stock-driving gold assays in 2004. Of the 40 holes that have been drilled to date on this property, over half have contained visible gold. Every hold drilled revealed elevated gold values, with 14 holes returning gold assays in excess of 10 grams gold/tonne. With a price of \$0.17, and only 33 million shares outstanding, this company brings a total price on the market of just \$5.6 million. Good results plus a strong management team headed by Art Troup and the Lang Group tell me this is a steal for subscribers seeing a low-priced exploration stock in which to allocate up to 5% of their investment holdings. 604-687-4622 and/or www.sultanminerals.com

X-CAL RESOURCES (TORONTO VENTURE-XCL-\$0.56) – This company's Sleeper project in northwestern Nevada may well host one of the largest gold deposits in the U.S., if not the world. In fact, I think the project has been too big for this small Vancouver based company to handle it on its own. It looks as though some help may be on the way. If so, 2004 could be a very exciting year for Shawn Kennedy and the firm he heads. The company has completed the private placement of 6,500,000 units @ \$0.68 per unit, for net proceeds to the company of \$4,420,000. The units consist of one common share and one half warrant. Two half warrants and \$0.72 entitle the subscriber to an additional share for up to two years. The places include Veneroso Associates and a private European financial institution. The shares that have been issued are subject to a one-year hold period.

The use of proceeds from the private placement will be for general corporate purposes and/or it may also be used for a second project owned by X-Cal, namely the Mill Creek Gold Property in Nevada. X-Cal's 100%-owned, 640-acre Mill Creek Gold Property is located in Lander County on the Battle Mountain Trend, within the Cortez Joint Venture area. Placer Dome has recently announced a new discovery of lower plate gold called "Cortez Hills" in this area. X-Cal's Mill Creek Gold Property is located over a lower plate window, northwest of Placer's Pipeline Gold Mine. X-Cal is commissioning a National Instrument 43-101 report on its Mill Creek Gold Property to document previous drill hole intercepts and untested targets on the property.

In addition to the above private placement, the company announced in a press release dated November 24, 2003, that it has agreed to form a joint venture on its Sleeper Gold Project, located in Humboldt County, Nevada, and that the incoming partners intend to initially capitalize the joint venture with US\$20 million, subject to the conditions outlined in the release. X-Cal's Sleeper Gold Project and the Mill Creek Gold Property are both located on the Battle Mountain Trend in close proximity to established industry infrastructure. As the gold bull market continues, it is highly likely a competitive bidding war is likely to take place between major gold mining firms. If so, the Sleeper project should become a hot item as it already appears to contain a multi-million-ounce gold resource; with only a small fraction of its prospective area explored, it may soon be off to the races. X-Cal is certainly another speculative penny junior stock that I think makes sense to own as one of at least several such companies on your list. 604-662-8245 and/or www.x-cal.com

New & Improved Weekly Hotline Messages - Paid subscribers to this newsletter may call our new, improved, more succinct hotline service. No access code is any longer needed. Simply call (718) 779-5985. These messages, which last a maximum of 3 minutes, are simply a summary of new buy/sell recommendations, changes in our views of the markets and infrequent changes with respect to our Model Portfolio. Although this service is designed to provide you with the most essential information, by far the best way to keep up to date with our views is to subscribe to our weekly hotline messages via email. To sign up for this service, call our office during regular working hours at (718) 457-1426.

Gold Share Scorecard

Equity Gold Stocks	Exch	Ticker	P	Company Activity/Comments	Price	Initial	Initial	Price	2003	Overall	Buy/
					12/31/02	Date	Price	12/31/03	% Gain	Gain	Hold
AgnicoEagle Mines Ltd *	N	AEM	A	Mid-sized Canadian gold producer	\$ 14.86	3/10/01	\$ 7.38	\$12.07	-18.8%	63.7%	Buy
Alamos Minerals	C	AGI	B	To earn 50% of Salamandra Property	\$ 0.50	10/16/01	\$ 0.25	\$2.02	307.6%	695.9%	Buy
Bishop Resources	C	BRI	C	Highly Prospective Gold & Silver Pops in B.C.	\$ 016	12/6/03	\$ 016	\$0.18	10.9%	10.9%	Buy
Cangold Ltd. *	T	CLD	C	Promising Exploration in Red Lake Gold Mine	\$ 0.08	6/23/03	\$ 0.08	\$0.22	183.2%	183.2%	Buy
Canarc Resources *	T	CCM	B	Advanced stage gold project in B.C.	\$ 0.29	2/27/89	\$ 0.19	\$0.65	126.5%	-45.5%	Buy
Candente Resource Corp *	C	DNT	D	Highly Prospective Gold Targets in Peru	\$ 0.39	1/26/02	\$ 0.11	\$0.89	128.8%	692.3%	Buy
Centurion Gold Holdings	O	CGHI	B	Near Prod. in South Africa. Maj. Acquisition expect	\$ 210	10/17/03	\$ 210	\$2.53	20.5%	20.5%	Buy
Claude Resources *	T	OGR	A	Smaller Producer in Saskatchewan, Ontario	\$ 0.94	5/11/02	\$ 1.06	\$1.68	78.5%	58.5%	Buy
Desert Sun Mining	T	DSM	B	Advanced State Gold Deposit in Brazil	\$ 0.60	5/31/03	\$ 0.60	\$1.33	121.2%	121.2%	Buy
Ergold Mining Corp. *	C	EMR	B	California Underground Mine - multi million oz.	\$ 0.25	10/19/02	\$ 0.15	\$1.08	324.7%	639.9%	Buy
Energold Mining Ltd.	C	EGD	C	Highly Prospective Gold Projects = Dom Republic	\$ 017	10/13/01	\$ 0.08	\$0.50	203.4%	551.4%	Buy
Excellon Resources *	C	EXN	B	High grade Silver, lead, zinc Deposit in Mexico	\$ 0.07	4/24/03	\$ 0.07	\$0.17	142.5%	142.5%	Buy
Fortuna Minerals	T	FT	B	Gold, cobalt, Bismuth in NW/7/ Coal in B.C.	\$ 0.39	4/4/03	\$ 0.39	\$1.45	272.0%	272.0%	Buy
GeoCom Resources *	O	GOCM	C	Advanced Stage Gold in Argentina + Alaska proj.	\$ 15	3/29/03	\$ 15	\$1.35	17.4%	17.4%	Buy
Glamis Gold *	N	GLG	A	Cal. Nev., Honduras Medium Sized Au Producer	\$ 1134	5/11/02	\$ 7.79	\$17.12	51.0%	119.8%	Buy
Globe Star Mining	C	GMI	B	Nearing copper, gold, silver prod. In Dom Rep.	\$ 0.38	10/12/02	\$ 0.32	\$0.47	23.4%	49.4%	Buy
Goldcorp *	N	GG	A	Gold Producer with major low cost deposit	\$ 12.72	5/1/99	\$ 2.97	\$15.95	25.8%	438.7%	Buy
Gold Fields Ltd. *	N	GFI	A	Large South African Gold Producer	\$ 13.96	6/15/02	\$ 12.37	\$13.94	-0.1%	12.7%	Buy
Golden Phoenix Minerals *	O	GPXM	B	Advanced Stage gold & copper Explorat'n	\$ 0.24	7/3/99	\$ 0.13	\$0.46	91.7%	253.8%	Buy
Golden Goliath	C	GNG	C	Large scale gold-silver exproation play in Mexico	\$ 017	1/17/03	\$ 017	\$0.46	172.3%	172.3%	Buy
Great Basin Gold	A	GBN	B	Large gold deposits in Nevada & South Africa	\$ 2.04	11/8/03	\$ 2.04	\$2.62	28.4%	28.4%	Buy
Great Quest Metals *	C	GQ	C	Promising Exploration Targets in Mali, Africa	\$ 0.22	10/19/02	\$ 0.16	\$0.51	128.8%	220.3%	Buy
IAMGOLD (1)	A	IMR	A	Medium Sized Canadian Gold Producer	\$ 4.86	9/10/02	\$ 0.91	\$6.96	43.1%	662.7%	Buy
IMA Exploration *	C	IMR	D	Highly Prospective Argentinian Gold Properties	\$ 0.35	2/5/00	\$ 0.40	\$1.35	286.1%	232.6%	Buy
Kimber Resources *	C	KBR	C	Gold/Silver Project in Sierra Madre Mtn.-Mexico	\$ 0.25	8/3/02	\$ 0.22	\$1.50	503.6%	580.4%	Buy
Mag Silver Corporation	C	MAG	C	Potential World Class Mexican Silver deposit	\$ 1.65	11/29/03	\$ 1.65	\$1.79	8.5%	8.5%	Buy
Midway Gold Corp	C	MDW	C	Two highly prospective Nevada Gold Projects	\$ 1.38	11/29/03	\$ 1.38	\$1.85	34.2%	34.2%	Buy
Nevsun Resources Ltd.	T	NSU	B	Advanced Stage Gold Deposit in West Africa	\$ 1.48	2/2/02	\$ 0.39	\$5.19	251.5%	1229.5%	Buy
Newmont Mining	N	NEM	A	World's Largest Gold Producer - Anti-Hedging	\$ 31.76	6/6/03	\$ 31.76	\$48.61	53.1%	53.1%	Buy
New Guinea Gold Corp.	T	NGG	B	Advanced Gold Mines in New Guinea	\$ 019	9/20/03	\$ 019	\$0.58	199.8%	199.8%	Buy
Northern Dynasty Minerals	C	NDM	C	Coper/Gold Porphyry Target in Alaska	\$ 0.39	1/1/02	\$ 0.26	\$4.51	1063.7%	1636.1%	Buy
Northern Star Mining	C	NSM	C	Advanced Stage Underground Au Mine - Quebec	\$ 0.25	7/26/03	\$ 0.25	\$0.82	232.5%	232.5%	Buy
NovaGold Resources Inc.	A	NG	B	Advanced Stage gold Mining Project in Alaska	\$ 3.24	7/8/00	\$ 0.44	\$4.98	53.6%	1031.8%	Buy
Pacific Ridge Exploration	T	PEX	C	Highly Prospective Nevada Gold Targets	\$ 018	11/14/03	\$ 018	\$0.23	28.6%	28.6%	Buy
PMI Ventures	T	PMV	D	Highly Prospective Gold Targets in Ghana WA	\$ 0.39	7/19/03	\$ 0.39	\$0.53	36.2%	36.2%	Buy
Pelargio Mines Inc.	C	YPM	C	1.7 Million Ounce Resource + Major explorat. Pot	\$ 014	1/1/02	\$ 0.08	\$0.37	164.8%	393.8%	Buy
Piedmont Mining Co. *	O	PIED	-	Start-up Junior Mining Co with Stellar Managm't	\$ 0.06	10/11/03	\$ 0.06	\$0.16	166.7%	166.7%	Buy
Randgold Resources	O	GOLD	A	Major, Highly Profitable African Gold Producer	\$ 20.55	10/25/03	\$ 20.55	\$27.35	33.1%	33.1%	Buy
Rare Earth Metals	C	REM	C	Highly Prospective Nevada AU + Manitoaba NI proj	\$ 0.30	9/6/03	\$ 0.30	\$0.53	77.5%	77.5%	Buy
Ross River Minerals	T	RRM	C	Very promising gold/silver target in Mexico	\$ 0.28	8/23/03	\$ 0.28	\$1.12	299.6%	299.6%	Buy
Rubicon Minerals Corp.	C	RUBIF	C	Prospective Red Lake & Newfoundland gold prop	\$ 0.67	5/23/03	\$ 0.67	\$1.13	68.7%	68.7%	Buy
Samex Mining *	O	SMXMF	D	Large gold Exploration Targets in Bolivia &	\$ 015	4/16/03	\$ 015	\$1.07	637.9%	637.9%	Buy
Seabridge Gold Inc.	T	SEA	B	Gold Resources totaling 13.8 million oz.	\$ 1.97	2/1/03	\$ 1.97	\$4.09	107.6%	107.6%	Buy
Southern Rio	T	SNZ	C	High Grade gold vein system discovered in B.C.	\$ 0.07	8/16/03	\$ 0.07	\$0.25	253.7%	253.7%	Buy
Spectrum Gold	T	SGX	C	5 mill oz. Au + 5 bns lbs. Copper in Alaska	\$ 2.61	11/22/03	\$ 2.61	\$4.05	55.2%	55.2%	Buy
Sultan Minerals	C	SLL	C	Large Gold Exploration Target in B.C.	\$ 016	3/6/03	\$ 016	\$0.19	18.7%	18.7%	Buy
Terraco Gold Corp	T	TEN	D	Highly Prospective Nevada Gold Targets	\$ 0.39	7/19/03	\$ 0.39	\$0.31	-21.1%	-21.1%	Buy
Tumi Resources *	T	TM	C	Highly Prospective silver-gold Targets in Mexico	\$ 0.72	11/19/03	\$ 0.72	\$1.06	47.9%	47.9%	Buy
U.S. Gold Corp *	O	USGL	B	Advanced Stage Nevada Gold Ready for Prod.	\$ 0.52	3/23/02	\$ 0.33	\$0.82	57.7%	148.5%	Buy
X-Cal Resources Ltd.	T	XCL	B	Operator on Sleeper Mine nearing production	\$ 0.45	4/8/00	\$ 0.24	\$0.63	42.1%	163.6%	Buy
Average Gain (Loss) on Gold Mining Stocks (Including closed positions) =====>									144.88%	262.83%	

CHART EXPLANATION|| Exch A=American; N=New York; O=NASDAQ/Bulletin Board; C= Canadian Exchanges. M= Montreal. T= Toronto. ||**Q=QUALITY RATINGS** =A = Currently Operating, B=Not in operation but with pre-feasibility or feasibility study in hand; C = No feasibility study but strong indications of the existence of a commercial ore body.|| * Represents companies in which the editor and/or his family hold a long position. D= Ore body not yet delineated but based on size of mineral bearing structures and early geological work, indicates potential for outlining an ore body. **2003 Closed Positions: Eaglecrest Explorations (-45%), Clifton Mining (-19%), Great Basin Gold (+13%), Minefinders Corporation (+543%), Apollo Gold (+33%), DRC Resource Corp. (+54%), American Int'l Ventures (-64%), First Echelon (+63%), Edgetech Services (+17%), Senator Minerals (+233%), Response Biomedical (+144%), Andean American (+13.5%), Gold Canyon (-54.3%), Golden Eagle Int'l (-11.4%), High River Gold (+290.6%), Human Bio Systems (-52.2%).**