

STRAIGHT TALK ON MINING

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The Gold Rush is Here!!

The next time you see a documentary about the Klondike on PBS or the Learning Channel, or one of those big coffee table books with those old sepia photographs, pause and reflect for a moment about those brave individuals. They were tough. They were gutsy. They were contrarians. Some crossed oceans to get to the gold; others crossed mere mountains. They were single-minded in intent. Some were striking out for themselves; others for the families they left behind. Having gold meant wealth, security, peace of mind, independence, invulnerability - that you were beholden to no one. Finding the gold didn't favour caste, or colour, or class, or ethnicity, or religion, or anything else. The gold didn't care. Which is why the great gold rushes of history caught fire with the imagination, and remain embedded in our collective psyche. It was the chance for the little guy to make good.

The stock market has been sold and touted as the new chance for the little guy to make good. Better than the lottery; with a return of $x\%$ over time, for all practical matters "as good as guaranteed". "Wisely invest a tithe in the market and worry not about retirement, or your children's education. This is a New Era. Cycles are a thing of the past". And now it is all unravelling. Declining earnings. Rock-solid companies suddenly go bang! with little warning. Countries devalue their currencies. Interest rates so low you're better off leaving the cash in the mattress where you won't have to pay bank charges.

All were "rushing" for fool's gold.

A particular telling thing for me was page 12 in the January 25th edition of *the Financial Post*, which contained the following 6 headlines. There were no other articles on the page:

McDonald's sees fifth profit drop
Kodak rises despite quarterly loss
Kimberly-Clark hopes diapers bring relief
Dow Jones hit hard by advertising slump
Hershey Foods Corp. sinks into the red
Maytag's quarterly loss doubles to \$US21-million

Undeniable evidence of a downturn across industries and across sectors.

Compounded on top of the economic downturn, we now have a *crisis of confidence* in the markets. The mainstream media, which have been well-behaved stock market boosters for years are now turning into a vicious school of piranhas. "Off-balance-sheet concerns" and "revision of *pro forma* earnings" are discussed on an hourly basis. The Enron hearings are carried live on T.V. This is not a media circus over

O.J. or Chandra Levy; it is the market! Yesterday, with ill-disguised glee the networks reported \$750 million US going astray from the US arm of Allied Irish Bank, potentially due to a rogue trader. These are the most dangerous times in the stock market I have ever witnessed, where companies can go “bang” overnight, as soon as they come under scrutiny. The media coined the term “*Enron-itis*” in the last few days. In fact as I write this, I just heard the phrase on CNBC, “There’s blood in the water.”

The little guy was shafted.

According to Dorland’s Illustrated Medical Dictionary, 27th edition:

epidemic (ep"Odemlik) [Gr. *epid'mios* prevalent] occurring suddenly in numbers clearly in excess of normal expectancy; said especially of infectious diseases but also applied to any disease, injury, or other health-related event occurring in such outbreaks.

pandemic (pan-dem!ik) [pan - + Gr. *d'mos* people] 1. a widespread epidemic of a disease. 2. widely epidemic; distributed or occurring widely throughout a region, country, continent or globally.

We are witnessing an equity pandemic.

Over the last few months I have written several times that gold mining and exploration stocks would eventually come to be regarded as “the only game in town”. As more companies come under close scrutiny it is a certainty that more Enrons will be uncovered. The question is, will this provoke a panic out of the broad market? Last night I was watching the business news by satellite feed on the Global network from Canada and at one side of the screen the following statement was displayed while the commentator made remarks about gold, “Don’t trust the stock market? Try the gold sector.”

Extraordinary!

When the gold market - the nemesis of equities - gets positive press in the mainstream media as a **safe haven**, the tide has very surely turned. In the media the last few days I have heard about “an erosion of trust” in the equities market, the “limited downside risk” in the gold market, a “flight into gold” by Japanese investors, and even “elimination of hedge positions” by gold producers as a moral imperative. After numerous false starts over the last few years we have enough momentum now to begin the New Gold Rush.

Even more interesting, look at what is happening in India!
<http://www.hinduonnet.com/stories/2002021000201100.htm>

The gold price in Rand and Aussie dollars is at record highs! Just as the equity story is a “pandemic”, the gold story is global.

Vancouver Report Part 2:

The Vancouver Investment Conference we reported on in our last essay has been over for a few weeks. What a difference a few weeks makes! Now gold is flirting with a \$300/oz price. Nevertheless, we think that the comments about gold made by a learned panel at the conference are even more important now. We're not experts at shorthand, but we made lots of notes. We've tried best not to paraphrase. These are some of the sharpest minds in the business.

Jay Taylor, who writes *Jay Taylor's Gold and Technology Stocks* newsletter, acted as moderator.

Robert McEwen is Chairman and CEO of Goldcorp Inc.

Ian Gordon is the editor of the *Long Wave Analyst* and VP of Canaccord Capital in Vancouver.

David Tice is president of David W. Tice and Associates Inc., and manages the Prudent Bear Fund.

Bob Bishop is editor and publisher of the *Gold Mining Stock Report*.

You can find all their contact information at:

<http://www.cambridgeconferences.com/vancouver/jan2002.html>

Is gold manipulated/regulated? Why? How has it been achieved? How much longer can it go on?

Bob Chapman: There's no doubt that gold is being manipulated. The people doing the manipulating have so far been successful. Since Enron, the judge in the GATA case will be more receptive, and the odds are much improved that he will take the case and that it will get a fair hearing. The ESB, the FED, and Central Banks have been moving SDR's from one place to another and lending gold to suppress the price.

Robert McEwen: The reason for the gold manipulation is that gold is a monetary asset. If the price is kept down then it will give the false belief that the economy is fine. Part of European Central Bank selling has been to align themselves for the Euro monetary union. Hedging of gold by producers appears to be coming to an end. Hedging is a potential Enron to producers who hedge, and just like what happened to Ashanti and Cambior, the market can be suddenly taken by surprise.

Ian Gordon: There is no question that the US and UK are involved in holding down the price. Once the US closed the gold window the price rose dramatically. The US and IMF covertly sold gold to depress prices and to ensure there is no alternative to the US dollar. Gold stock movements are forecasting that the days are numbered for this.

David Tice: I am a believer in the GATA story. Gold is an enemy to the US dollar, which in turn is the key to the Bubble. As long as the dollar is strong it's great for the economy. If it declines, the Bubble is in jeopardy and the game can come to an end. Gold is one of the vigilantes which will bring the Bubble to an end. No one is bigger than everybody. It's time to pay the piper. Central Banks always lose in free markets.

Bob Bishop: I believe that gold is "managed", "rigged", "manipulated"; take your choice. There is overwhelming evidence. After the run up in '79-'80 it was determined that this must not happen again, so we have overt and covert policies at work. The Gold Carry Trade is played by more people than you know are playing the game, suggesting there are Enron style problems built into the market. Attempts are made to keep the status quo. The gold market must be maintained or big trouble is looming.

Inflation or deflation?

Bob Chapman: The Federal Reserve has increased the money supply by 1.2 trillion dollars over 2 years, but inflation has dropped to 1-2%. There seems to be no blip in inflation. We are headed straight into deflation. Deterioration of currencies will cause movements into gold as a flight to quality.

Ian Gordon: The Kondratieff cycle started in 1949. The end of summer was 1980. We are in a deflationary winter now. There are too many goods and an undersupply of money. Bankruptcies are overwhelming the money supply. In the deflationary 1930's Homestake Mining between 1929-1936 was up over 1,000 percent. I am very bullish because gold becomes money in a deflationary winter - no one wants paper.

David Tice: This is a battle between deflation and inflation. The real estate sector is the key to the Bubble. Extraordinary measures could be taken by the US government to avoid the outcome....like dropping money from helicopters or adding zeros to bank accounts.

Bob Bishop: Anything and everything will be done to avoid the outcome - gold's emergence as an alternative to currency.

Bob Chapman: Fannie Mae and Freddie Mac are of concern. Homebuyers can purchase homes with very little down. They don't even need to have a lot of income. The real estate bomb is part of the debt bomb. Corporate debt problems and personal bankruptcies will trigger a real estate bomb in commercial and residential real estate, leading to eventual collapse of the derivatives markets.

Robert McEwen: China and Asia have made huge investments in manufacturing and need to sell their products to the west. They will have to devalue competitively to sell their goods and make them cheaper. The "heart of the economy" has already moved to Asia. The gold market is tiny and any movement into it by Asians can have great consequences.

David Tice: We're seeing a lot of subprime borrowing, which is part of the extraordinary measures encouraged by government to sustain the Bubble. This

includes Fanny and Freddie lending to the real estate sector. The potential vigilantes here are the dollar, gold, and credit quality. Massive defaults and bankruptcies will eventually do in the economy.

Bob Bishop: Gold stocks last year were the overall best performers. We've seen some false starts and maybe a lack of faith in it by investors. Gold needs to significantly go up so that we see things sustained. Good money was made last year. Better money will be made this year. It's a process.

Gentlemen, your predictions for the gold price for December 31, 2002:

Bob Chapman: \$300 per ounce by the end of the month. If it breaks \$340 it will go to \$525.

Robert McEwen: \$350 US

Ian Gordon: \$500 US

David Tice: \$400 US

Bob Bishop: \$360 US

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