INFORMATION LINE

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Perspective

Autumn 2002 is officially upon us. However, for the U.S. dollar and U.S. dollar denominated investments, it seems as if "Fall" began in the Autumn of 2001 and 2000 respectively. As we go to press, the Dow is struggling to get back up to the 8,000 level, the Swiss Franc and Euro are up about 10% versus the greenback, and gold and platinum are up roughly 15% and 18% all since the beginning of 2002.


Michael Checkan

In times like these, we are reminded of the words of legendary investment wizard Bernard Baruch (paraphrased) ~ "I don't want the first 20% or the last 20% of profit on an investment, just the 60% in between." Recently, one of our clients suggested a similar theme as he recounted the response given by one of the Rothschild's when asked how his family amassed its fortune. To again paraphrase ~ "We probably made most of our money by buying a little too high and selling a little too low."

Both of these successful investors allude to the fact that it is not necessary to capture the entire gain of any investment in order to be profitable. Rather, they suggest that a sound investment philosophy relies more on wisely analyzing fundamental trends, seizing most of the upward growth, and reallocating assets before the trend has peaked.


Glen O. Kirsch

There are always opportunities. If the almighty dollar is under severe pressure, consider allocating assets to alternatives such as precious metals and strong currencies. In this issue, our friends at Weber Hartmann Vrijhof Partners suggest some non-dollar investments worth considering.

This month's "Hard Stuff" and "Currency Corner" articles outline some reasons for the U.S. dollar's recent woes. We think you will find their comments enlightening as they look at the effects that years of tampering with free

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Market Corrections Yield Opportunity Elsewhere

By Robert Vrijhof

After a technical recovery of 20% that gripped the world's equity markets at the end of July, sobriety and uncertainty have returned. In fact, several economic indicators pointed downwards over the past 2 months. In 2002, corporate earnings in the US should come out higher than the last year. After the close of the 2nd quarter, the ongoing revision of earnings forecasts has recently led to the anticipated earnings growth rate being downgraded to just 10%, after a projection of 15% in May. A great deal of production capacity has been standing idle for some time. Investment activity is not going to pick up in the immediate future, and this will have a negative impact on earnings.

If this is correct, the situation will inevitably lead, in the near term, to the world's equity markets producing lower returns…lows not seen since the 80's. Therefore, it becomes more likely that the markets will lack direction for some time. Major movements will probably tail off into shorter and shorter cycles. Also, volatility is being exacerbated by the geopolitical situation in Iraq and the fear of terrorism.

What does that mean for investors? The value generated by a purely "Buy and Hold" strategy will diminish. Over the past 20 years, holding a portfolio of 40% equities and 60% bonds generated annual returns of approximately 9%. If interest rates remain low, and returns on the equities remain in the lower single digit range, we can expect a "Buy and Hold" strategy to gain only 1 to 3%.

How can added value be created under these circumstances? First, financial analysis of stock and fund selection must be better than average. Second, one must recognize and exploit shorter economic cycles. Third, you should increase holdings in bonds, with the main focus on bonds denominated in Euro. Lastly, buy the Norwegian Kroner for the following reasons: 1/ Current yield is around 6.5% with maturities in January and November 2004, 2/ The bonds are AAA rated by both Moody's and S&P, 3/ The currency is closely linked to the oil price. We have added between 5 and 7% in Kroner to the total portfolio.

Currently (mid-September 2002), we are seeing a brief rally in the US dollar in an attempt to push the Euro back to .9600 Euro/US dollar. If the market succeeds in breaking this important resistance level, we may test the .9200 -.9400 Euro/US dollar. We expect this level to hold, and, after this, we should see a move back to parity. We feel that this short rally should be viewed as an opportunity to sell the US dollar and purchase the Euro at .9400 -.9600 Euro/US dollar. The .6500 -.6600 Francs/US dollar is the target entry point for the Swiss Franc.

The most difficult task to achieve in the future will be capital preservation. Therefore, a defensive posture is dictated and means that a large portion of your asset allocation should be in European, Australian and New Zealand bonds. If you cannot follow foreign stocks on a daily basis, you should not invest in them. We feel strongly that very difficult years are ahead of us, and our current model portfolio reflect these concerns:

- 60 % straight bonds and bond mutual funds in Euro, Swiss Francs, Norwegian Kroner, Australian and New Zealand dollars, with an average yield between 3 to 7%.
- 10 % in European and Swiss stocks
- 10 % physical precious metals and mining stocks
- 20 % cash and money market funds in Euro and Swiss Francs.

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In This Issue

Currency Corner

Monetary Mismanagement and the Economic Downturn

By Richard M. Ebeling

The cause of the current economic downturn is not a mystery to anyone familiar with the Austrian School of Economics and its theory of the business cycle. While history of course never mechanically repeats itself, the fact remains that like causes tend to generate like effects. And what we have seen over the last seven years has had a striking similarity to the economic events of the late 1920s and the early 1930s.

At that time, Austrian economists, Ludwig von Mises and Friedrich A. Hayek, pointed out that the American economy in the mid and late 1920s had experienced an economic revolution of new technologies, improved methods of production that lowered costs of manufacturing and, as a result, increased the supplies of a wide variety of old and new products available to the consuming public. All of these positive changes should have brought about a slow downward trend in the general price level as an ever-increasing supply of goods and services were offered to consumers on the market. Instead, the general price level had remained relatively stable up to 1929.

The Austrians argued that beneath the apparent stable price level, the Federal Reserve had been significantly increasing the money supply and actually causing a hidden inflation by keeping prices higher than the market would have set them if not for the expansionary monetary policy. Fearful of an absolute rise in the price level and a seemingly irrationally exuberant stock market, in late 1928 and 1929 the Federal Reserve put on the monetary brakes and the investment boom the monetary expansion had been feeding on for several years came to a halt. The economic downturn of 1930 became the Great Depression of 1931 and 1932 when the Hoover Administration introduced a series of interventionist and fiscal policies that prevented the normal market process of adjustment in supply and demand and the structure of prices and wages to the reality of the post-boom economic environment.

In many ways, the second half of the 1990s was a repeat of the late 1920s. The "new technologies" industries introduced dramatic and rapid change in the American economy; productivity improvements and cost-efficiencies were supplying more, better and less expensively produced products to the market; and the expanding global economy was widening the quantities and varieties of goods available to the American consumer.

But throughout this period, the general price level remained fairly stable, indeed actually rising at a relatively low percentage amount year-by-year. Why hadn't prices been slowing and gently falling during this period, as the improvements in the economy suggested they should have? Because

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	YEAR AGO	CURRENT	
Swiss Franc	.6264/Franc	.6777/Franc	▲
British Pound	$1.4701/Pound	$1.5701/Pound	▲
Japanese Yen	.0085/Yen	.0082/Yen	▼
Euro	.9298/Euro	.9891/Euro	▲

The Hard Stuff

Inflation as an Attack on Civilization

By Lawrence Parks

When people think of inflation, they generally focus on the economic consequences: the potential loss of purchasing power of their savings and their promises of future payments, e.g., their pensions. But there are much more serious consequences which are rarely considered, and almost always only on those occurrences of hyperinflation.

The glue that holds society together, what we call "civilization," is an intricate web of relationships, and our expectations of those relationships on a personal, local, national, and international basis. In other words, "civilization" can be thought of as the mutual understandings we have about how to behave with one another on an individual and institutional basis. Relationships are based primarily on mutual promises and on the expectation that those promises will be honored.

Perhaps foremost of all promises is the promise to pay: to pay interest on savings; to pay insurance proceeds, e.g., annuities; to pay rents; to pay pensions; to repay amounts lent; and, so on. But suppose the monetary unit on which all promises to pay is based, e.g., the "dollar," becomes impaired. If that impairment is great enough, then, while promises to pay may be discharged in nominal terms, *de facto* they are partially or even wholly reneged. In this way, expectations are not met, and those who are dependent on receipt of payment become in great peril, especially if they are old and cannot replenish.

The free market has a solution to maintaining the integrity of promises to pay: gold-as-money. There are two reasons why the free market chooses gold-as-money. First, gold-as-money is the most efficient medium of exchange in terms of minimizing the transaction costs of transferring wealth geographically and over time. The economic concept that describes this, which is no longer taught, is called "marketability," or "salability." Briefly, it postulates that as one offers increasing amounts of a commodity for sale, the commodity for which the buy/sell spread increases the least is the commodity that is most suitable for money. That commodity is gold.

Second, gold is the only commodity, with a minor exception being silver, for which there is more than a year's production supply above ground. For example, for oil, there is but a few months' supply. For gold, there is more than 50 year's worth of production supply above ground. This huge overhang results in price stability in terms of gold regardless of new discoveries or mine shutdowns. No other commodity meets this criteria.

Today, fiat money, money that is created out of nothing and without work, is used worldwide. The reason monetary authorities have gotten away with this *prima-facie* fraudulent money is a combination of coercion, misrepresentations, and nondisclo-

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	YEAR AGO	CURRENT	
Gold	$291.50/oz.	$323.30/oz.	▲
Silver	$4.51/oz.	$4.50/oz.	▼
Platinum	$495.00/oz.	$573.00/oz.	▲
Palladium	$453.00/oz.	$327.00/oz.	▼

The Bahamas are Back... Have you heard?

By Howell Woltz

Our friends at Asset Strategies International, Inc. (ASI) have ask us for an update on the recent landslide elections and amazing changes taking place in The Bahamas, and we've got to tell you, it sounds pretty good.

The new Prime Minister, Hon. Perry Christie, in his very first speech after a landslide victory against the FNM, let the world know that The Bahamas is back in business. The socialist countries have pressured the islands through the OECD, FATF, and other non-government entities to do what these countries could not legally do directly.

These non-government organizations that were created by the G-7 nations, have used terms such as "blacklisting" and other scurrilous labels and methods to pressure the economically free nations to become big taxing socialists like the U.S., Canada, France, and Britain have become over the last few decades.

The Prime Minister has now put these groups on notice that no further ground will be given. Even better news, there has also been a Supreme Court review, which has determined that the last government overstepped its Constitutional bounds.

Several of the eleven pieces of legislation that were hastily passed by the Ingraham Administration under intense pressure from the OECD and the Clinton Treasury Department, are being rescinded as un-Constitutional. They must be modified, or dropped completely according to the nation's top authority.

It was inevitable that some changes were going to be made here, but it is quite pleasing to see that the nation's new leader has drawn a line in the sand of our lovely beaches and told the G-7 nations and their minions that they will not further tell the Bahamian people how to live their lives or manage their economic affairs. These citizens voted for their own Constitution and government back in 1973. It is truly offensive that the same nations that were the models for this Libertarian paradise, that are now leaving economic freedom and personal liberty themselves, want all others to follow them into the dark.

The people of The Bahamas were so displeased with the last government's capitulation to these international bullies that they voted every single Minister out of government at one time. It is unprecedented in the 280-year history of the nation.

Even during these problems, however, Sterling's operations have grown dramatically. We now have offices in Anguilla in addition to Nassau, and have also become a licensed Trust company. Our securities trading and hedge funds operations have been expanded under a Class One Broker Dealer license and now offer a wide variety of innovative structures and companies, and have the international investment strategies to make them worthwhile. Sterling Precious Metals, Ltd. (part of "The Sterling Group of Companies") was also recently appointed as an Approved Dealer for the Perth Mint Certificate Program (PMCP). This is the only government guaranteed precious metals certificate program in the world.

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the Federal Reserve through these years, once again, significantly increased the money supply at an annual rate that for some of this time was in the double-digit range. The Federal Reserve had once more fed an inflationary investment boom and another exuberant stock market rally beneath the apparent stable prices.

The last two years has witnessed the results of this artificial boom in the form of a severe stock market decline, and collapsing profitability in the new technologies industries that reflects one aspect of the overhang of malinvestments induced by the monetary expansion of the past. And once again the necessary adjustments have been interfered with or hindered by government interventionist policies. The tax structure drains wealth from the private sector and depresses profit margins. In the face of a number of corporate scandals, new regulations are being introduced that will reduce business flexibility and financing. Recent protectionist legislation is threatening trade wars between the United States and other parts of the world. The Federal Reserve has attempted to prop up the malinvestments its earlier monetary policy created through continuing monetary expansion and artificially low interest rates. And the fear of war and its uncertainties clouds the entire investment and business horizon.

What the American economy needs for sound and relatively rapid recovery is lower taxes, reduced regulation, more open international trade, less monetary manipulation by the Federal Reserve, and a calmer global political environment. Alas, the current trend in American economic policy seems unlikely to supply any of these.

Dr. Richard M. Ebeling is the Ludwig von Mises Professor of Economics and the Chair of the Economics and Business Administration Department at Hillsdale College, Hillsdale, Michigan. A free subscription to the College's monthly publication, *Imprimus*, devoted to the principles of limited government and economic freedom, may be received on request by calling 1-800-437-2268.❑

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For more information about our investment strategy, please contact us for a free no-obligation consultation.

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Go for the Gold

By Glen O. Kirsch, President
First Collectors Guild

In the fall of 1999, we introduced our readers to **"The Bullion Collection"…** a stunning ensemble of 24K gold necklaces brought to you by our affiliated company, **First Collectors Guild (FCG).**

At that time, the necklace styles, Baht and Chain Link, were available in 18" and 24" lengths, all handmade by Asian craftsmen to **FCG's** .9999 gold specifications. No two pieces were exactly the same. The response to **"The Bullion Collection"** 24K jewelry was overwhelming. We heard comments such as "Beautiful," "I love the necklace," "What a great idea," and "Such a great value." Many purchased for themselves and others bought gifts for loved ones. Some even purchased the necklaces as "core-holdings" due to the volume discounts available.

The only negative comment we received about **"The Bullion Collection"** was that the selection was too limited!

As a result, **FCG** expanded **"The Bullion Collection"** in 2001 to include eight different hand-crafted styles of necklaces and five matching bracelets. Now, necklaces are available in 18" and 24" lengths and bracelets in 7", 7 1/2", 8" and 8 1/2" lengths. The weights available are expanded to include 1, 2, 3, 4 and 5 ounces. All of this jewelry remains pure 24K, .9999 fine gold. The pricing is also unique. The necklaces and bracelets are less expensive than 14K or 18K machine made jewelry, selling at a small premium to the spot price of gold.

In addition, **FCG** offers an on-line catalogue via its web site, **www.firstcollectorsguild.com**, with close-up color photos of all the 24K jewelry styles.

As if the unique handmade beauty, 24K pure gold and competitive pricing isn't enough, **The Bullion Collection** also offers the gold buyer a practical way of enjoying their gold…by wearing it... instead of placing it in a safe deposit box. Even those gold owners with government confiscation concerns can rest easy with **The Bullion Collection**…gold jewelry was never confiscated in 1933.

Gold jewelry is an excellent gift of love anytime, but especially during the end-of-year holiday season and the start of the New Year. Pure gold jewelry (24K, .9999) is the ultimate…a timeless expression of love. These stunning hand-crafted necklaces and bracelets are still priced less than 14K or 18K machine made jewelry. Since we launched **"The Bullion Collection"** four years ago, not one necklace has been returned due to dissatisfaction!

The cost of the unique jewelry in **"The Bullion Collection"** remains extremely reasonable. Pricing is based on the prevailing gold price, which is currently near $320/oz, only $70.00 above 20-year lows for gold. To review the various jewelry options and pricing, visit our web site, or call toll-free for more information.

Don't disappoint a loved one by not ordering early. Remember, these are exquisite, handmade pure gold jewelry items, which take time to create. So don't delay. Order now by calling toll-free 1-800-831-0007, Mon–Fri., 9:00 AM to 5:00 PM. For your convenience, we accept Visa and Master Card. Unfortunately, we cannot guarantee holiday delivery for orders placed **after** December 1, 2002.❑

> *"It is extraordinary how many emotional storms one may weather in safety if one is ballasted with ever so little gold."*
>
> William McFee (1881-1945)

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market forces has had on the dollar and our economy. The moral here is that some things are better left alone.

We hear from our friend in The Bahamas who gives us an update on conditions in this island nation after their recent elections. The results of the elections were indicative of the peoples' desire to resist outside influences and to protect Bahamian sovereignty and free enterprise.

Lastly, it's that time of year when we all start to look forward again to the holidays. Our affiliate, First Collectors Guild, has expanded its line of pure, 24-Karat gold jewelry…another alternative to the dollar that can be worn and admired for years to come.

So, as the leaves begin to change, and the chill creeps back into the air, take steps now to insulate your portfolio if you have not already done so. Then, settle back in anticipation of a cozy, not frigid, fall and winter.❑

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sure of material information. Since the 8th century in China, every experiment with fiat money has ended in disaster, many times destroying the middle class, that group that protects society from the barbarians. To counter this risk and to protect and preserve our civilization, it is essential that we once again return to "the standard of every great civilization": gold-as-money.

Dr. Lawrence Parks is the author of *What Does Mr. Greenspan Really Think?* Lparks@FAME.org; www.FAME.org.❑