

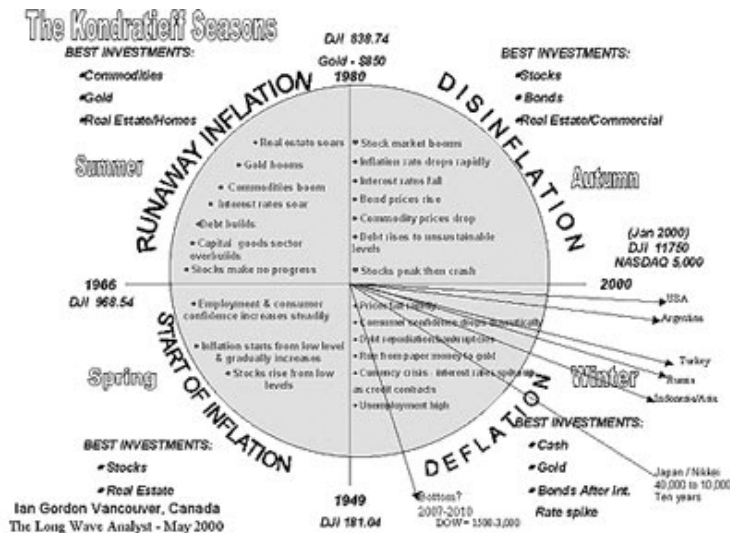
The Kondratieff Winter Is Upon Us

By David J. DesLauriers
25 Aug 2005 at 05:28 PM EDT

TORONTO (ResourceInvestor.com) -- Long Wave Analyst Ian Gordon spoke to Resource Investor about the Kondratieff Wave.

Briefly, the Kondratieff Wave was developed by a Russian economist named Nickolai Kondratieff (1892-1938) whom Stalin later sent to Siberia to 'count the birch trees'. The major premise is that "capitalist economies displayed long wave cycles of boom and bust ranging between 50-60 years in duration."

Those who would like some background on the Kondratieff Wave can visit this [website](#).



Exclusive Interview

DAVID DESLAURIERS: Given the speed at which information travels these days, the pace of innovation, and the reality of interconnected markets, does the Kondratieff model need to be updated slightly, or are the timeframes for each wave still relevant?

IAN GORDON: Because it's a very long cycle - I call it a lifetime cycle, and because we live longer it is a longer cycle than it was in Kondratieff's day. Because it is a lifetime experience cycle, really no one recognizes what part of the cycle we're in because they haven't experienced it before.

You're dealing with human sentiment really, mass sentiment and that doesn't effectively change just because information is passed along more quickly. In effect the cycle is actually slowed, one reason being that we live longer and therefore it takes longer for a cycle to spend itself out.

Second, this is the first cycle that has occurred on a purely fiat money system so the central banks and particularly the Federal Reserve have the capability of prolonging the cycle by printing money.

DAVID DESLAURIERS: What part of the Kondratieff cycle are we in presently - is winter approaching?

IAN GORDON: We're in the winter because the peak in the big autumn stock market is always a signal that you've entered winter. The big bull market in stocks, bonds and real estate always occurs in the autumn. The previous autumn was the 1921-1929 experience and this autumn was the 1982-2000 experience.

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We are in the winter but its being masked by the Federal Reserve dropping interest rates almost in a panic down to 1% and also the huge money printing that Greenspan has done. So in some ways, the evidence of winter is not upon us but when we do feel it its going to be a lot worse than probably the previous winter experience because the debt build-up has been much more horrific.

DAVID DESLAURIERS: Given the degree of control that the United States has in its monetary and fiscal policy and the emergence of goods and wage deflation from China, can governments seriously prolong the autumn period?

IAN GORDON: What they've done is that at present we are in winter but its very benign because of the massive government intervention in the system simply through the Federal Reserve monetary and fiscal policy so that we're masking it but through that masking we're building an inordinate amount of debt in the system and that debt ultimately is the thing that really makes the winter apparent, and makes it really, really difficult for people.

We're already seeing the debt bubble starting to collapse - you've seen it in the airline industry you've seen it in things like GM and Ford - I mean both of those car companies are really candidates for bankruptcy.

DAVID DESLAURIERS: Where does the Kondratieff Winter stand on whether we will have deflation or inflation, as market analysts are mixed on this issue?

IAN GORDON: I'm absolutely convinced that the cycle itself is an inflation/deflation cycle so that when the cycle starts at the beginning of spring, inflation is very benign - there is no inflation so this started in our present cycle in 1949, then you go into the summer; summer is always the inflationary part of the cycle because there's always been a war in the summer - the War of 1812, the U.S. Civil War in the second summer, WWI in the third summer and the Vietnam War in the fourth summer.

When summer ends, that inflation turns to disinflation or falling inflation and in the winter the cycle then goes through the process into deflation, so disinflation turns to deflation. So I'm a deflationist, and the debt is also very deflationary.

If you look back at the Federal Reserve, Greenspan and Bernanke were talking about deflation three years ago. So they've really pushed back that deflation by these massive injections of money into the system, and China has been a huge beneficiary of that policy, with massive amounts of dollars that have gone into their economy. They are the second largest creditor nation now behind Japan. They've got all these dollars and those dollars are spent in China to build up the Chinese economy.

If you read Richard Duncan's book, *The Dollar Crisis*, you can see that China is a perfect example of what happens when you have a huge trade surplus. You build up a bubble economy, a massive exuberant investment process sets into the economy and I think China is a bubble waiting to burst.

DAVID DESLAURIERS: Where can investors hide? Are gold equities as much of a store of value as the yellow metal itself?

IAN GORDON: In deflation really nothing sort of works and debt is absolutely horrendous in a deflationary environment so the investment of choice, commodities don't work in a deflation and if you look at the 1930's and the depression, 25% of Americans were unemployed and if you had the same kinds of numbers, and there is no reason to expect that were not given the massive debt bubble that has been built into the economy, so with that kind of environment commodity prices will come down quite dramatically. The U.S. GDP in the 1930's dropped by half, so I think given that kind of environment the U.S. will be self sufficient in oil, and that means you wont rely on all these imports and prices will drop dramatically.

Look back to the Asian Crisis in 1998 its not that long ago that basically the Asian economies seized when Thailand went down and that really was because money that had been flowing into those economies because they were big creditors flowed out again because people got scared, they were worried about the banking system, so that is an example of what could happen to China. Keep in mind when that crisis occurred, oil dropped to \$10 per barrel - imagine what would happen if the U.S. economy seized, with 25% of world GDP.

What happens to gold in a deflationary environment and a lot of people say gold is just a commodity and therefore its values will come off too, well I say if you look at what happened in the 30s, gold took on the role of money and people sought gold because they trusted it, they didn't trust the paper or the banks so they converted their paper dollars into gold which was legal at that point. So much so that by the end of 1932, Hoover was told that the U.S. was running out of gold because the demand for gold was so terrific because everyone wanted it because they trusted it.

We're going to see the same today and the price of that was reflected in the price of Homestake Mining which went up by 600% between 1929 and 1935.

Conclusion

Buy gold and gold shares, the future is clearly not friendly.

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