



The Long Wave Analyst

Those who cannot remember the past are condemned to repeat it. Santyana

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The Long Wave Analyst is an investment strategy based upon historical analysis and interpretation of the "Kondratieff Cycle". Fax interpretation available between publications on significant market developments.

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Ian Gordon

Déjà vu all over again

*Turning and turning in the widening gyre
The falcon cannot hear the falconer;
Things fall apart; the centre cannot hold;
Mere anarchy is loosed upon the world,
The blood-dimmed tide is loosed, and everywhere
The ceremony of innocence is drowned;
The best lack all conviction, while the worst
Are full of passionate intensity.*

Yeats, W.B. The Second Coming.

Introduction

Since my first publication of The Long Wave Analyst, written at the beginning of 1998, I have warned my readers about the approaching Kondratieff winter. I have explained what that means and what devastating financial implications will ensue. I am sure that many readers will have been somewhat confused by my dire predictions, which have been made in the face of an ebullient stock market and bullish pronouncements from those who purport to understand the financial world far better than me. It is possible to predict the most likely course of the financial future, using a sound knowledge of history, coupled with a thorough understanding of the Kondratieff cycle.

For W.D. Gann, perhaps the greatest proponent of investment cycles who has ever lived, the key was to know your position in any particular cycle. He wrote, "The limit of future predictions based



The Sunday Telegraph, April 2001

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on exact mathematical law is only restricted by lack of knowledge of *correct data on past history* to work from. It is just as easy to figure 100 years or 1000 years in the future as one or two years ahead, if you have the *correct starting point* and know the *cycle* which is going to be repeated.”¹ Just to emphasize this point, he also wrote “In order to forecast future cycles, the most important thing is to begin right, for if we have the right beginning, we will get the right ending.”² There can be no doubt that we have the right beginning, because we know that the Kondratieff autumn always follows a peak in interest rates and commodity prices, which are followed by a significant recession and a bear market in stocks. Winter always follows a huge stock price peak.

The four seasons of the year teach us that there is a reaping time and a sowing time, and that we cannot reverse this order of Nature's laws.

W. D. Gann

Commodity prices peaked in 1980, interest rates the following year and the recession and bear market started in 1981 and ended in the summer of 1982. The same four events featured between 1920 and 1921 just before the great autumn stock bull market of 1921-1929. Based upon these four distinct occurrences, it would have been simple in 1982 to predict that we were about to embark on a great bull market in stocks, something that we would not again experience in our lifetime, and that bonds and real estate would also perform superbly. Coupled with these predicted bull markets, it would have been just as easy to know that gold would under-perform during this period, because autumn is the favoured season for paper assets and not hard assets like gold, which is real money.

Unfortunately, I was not writing the Long Wave Analyst at that time, nor was I well advanced in my studies of Kondratieff's economic work. Now that my studies of his work are sufficiently well advanced and I am writing this newsletter, which requires me to do considerable research, I have the utmost confidence in stating that we are now in the 4th Kondratieff winter. Just as the start of autumn can be predicted by the four events that I have just detailed for you, so too can we predict when winter has begun.

Winter always follows the autumn peak in stock prices. This peak is usually made obvious by a stock market crash that follows shortly thereafter. There has not been a crash in stocks yet; that is still to come, but a stock market top has undoubtedly been recorded. This means that there will be a complete reversal in asset choices occurring through the Kondratieff winter. Stocks, bonds and real estate, all of which performed so magnificently during the Kondratieff autumn, will suffer huge losses, whereas the price of gold and gold shares, which have been in a bear market since 1980, will soar to unbelievable levels. Suffice to say, what we are about to encounter will not be a happy experience for many. If you are prepared, your experience should not be as traumatic as will be the experience of those people who are heavily invested in stocks and/or overburdened by debt.

In 1928, Gann wrote to his clients, “When the time cycle is up, neither Republican, Democrat, nor our good President Hoover can stem the tide. It is natural law. Action equals reaction in the opposite direction.”³ The time cycle has now moved from the Kondratieff autumn to winter, and there is nothing that Alan Greenspan, President Bush, or other ‘powers that be’ can do to bring back autumn. Nor can they reverse the inevitability of the Kondratieff winter, which is now upon us. Like his Republican predecessor, Herbert Hoover, President Bush will probably be a one-term president. Most of the damage was perpetrated by President Bush's Democratic predecessor, but Mr. Clinton may well escape the blame, which is unfortunate, given that he was perhaps the most deceitful of all the American presidents.

An entire Kondratieff cycle is a once-in-a-lifetime experience. This is why most people cannot recognize the pattern of recurring events which take place at the same point in the cycle. In the introduction to his book *The Great Crash 1929*, John Kenneth Galbraith wrote, “These speculative episodes have occurred at intervals throughout history, and the length of the interval is perhaps roughly related to the time that it takes for men to forget what

happened before. The useful task of the historian is to keep the memory green.”⁴ This then is my objective.

In his March 29th, 2001 ‘Remarks’, Richard Russell wrote, “I think I’m fairly unemotional and clinical when it comes to the stock market. Yes, I do have a conservative bent, but that comes from my background of growing up in the Great Depression. But as wife, Faye, has often told me, ‘Richard, get over it—that was 70 years ago, times have changed.’”

“All the above notwithstanding, I want to tell you something and it comes strictly from my guts and its nothing I can prove. I get a really bad feeling about what is happening and what lies ahead.”⁵

I have long had a profound admiration for Mr. Russell’s stock market analysis, but his ‘gut feelings’ are strongly supported by the facts of the Kondratieff cycle. As for Mrs. Russell, we would caution her that times really have not changed and never do, when collective human emotion determines the outcome. Seventy years, although long, is certainly within the parameters of an acceptable Long Wave. It is events, not time, which determine the cycle and the most recent events are virtually identical to those that happened 70 years ago. These financial occurrences repeat themselves with uncanny similarity at the same stage in each Kondratieff cycle. This makes the cycle remarkably predictable. In his definitive work entitled *Business Cycles*, Joseph Schumpeter wrote, “The Kondratieff Wave is the single most important tool in economic prognostication.”⁶

Only those who know the cycle can possibly understand the unfolding seasons and the implications of each season for the economy and investments. If a large percentage of the current population had experienced the 1929 stock market crash and the ensuing economic depression, no doubt it would have expressed dismay at the ‘irrational exuberance’ still prevalent today in North American stock markets and urged caution against the accumulation of excessive debt.

In 1928, W.D.Gann, wrote his projections for the following year: “This year occurs in a *cycle*, which shows the ending of the bull market and the beginning of a prolonged bear campaign. The present bull campaign has lasted longer than any previous campaign in the history of this country. The fact that it has run longer and prices have advanced to such abnormal heights means that when the *decline* sets in, it must be in *proportion* to the *advance*. The year 1929 will witness some sharp, severe panicky declines in many high priced stocks.”⁷ How could he have known? The sole essence of his remarkable predictive ability was based upon his understanding of a multitude of time cycles, which may have included the Long Cycle, but we will never know for certain. “It is not my aim to explain the cause of cycles. The general public is not yet ready for it and probably would not understand or believe it if I explained it.”⁸

“In making my calculations on the stock market, or any future event, I get the past history and find out what cycle we are in and then predict the curve for the future, which is a repetition of past market movements. The great law of vibration is based on like producing like. *Like causes produce like effects.*”⁹ The causes of the 1982-2000 bull market in stocks are similar to the causes of the 1921-1929 bull market. Both markets were fostered by an inordinate amount of credit. The same causes which led to the 1930s depression are in place now.

It is not the bear market in stocks that is the cause of an economic depression -- it is the debt. The following analogy may help to explain. A hand grenade consists of three



essential components, a detonator, explosive, and a scored outer steel case. The **Economy** is the grenade, which is composed of the **Stock Market** as the detonator, **Debt** as the explosive, and the **Financial System** as the steel case -- the destructive piece of the grenade. The grenade remains relatively benign, when the pin restrains the detonator (stock market). Once the pin is pulled however (i.e., stocks start into a bear market), the detonator starts to move towards the firing pin. When that is struck it detonates the explosive (debt), which causes the outer steel casing (financial system) to fragment and fly in several directions, causing death or injury to anyone in the vicinity. The stock market is merely the catalyst, because its crash undermines the values upon which the debt has been accumulated. When the debt bubble explodes it blows the financial system apart, which destroys the economy.

Credit Cycle Comparison

“Kondratieff’s long waves are essentially waves of credit inflation and credit deflation.” 10 Once the Kondratieff winter has cleansed the economy of its debt, a new cycle starts in the spring. Banks which have survived the winter are well capitalized, corporations are lean and well funded and consumers have rebuilt a stockpile of savings. During the 1940s, Americans were saving in excess of 20% of their disposable incomes.

Kondratieff’s Long Waves are essentially waves of credit inflation and credit deflation.

Donald Hoppe

With all of these factors in place, the stage was set for the rebirth of the economy and the start of the Kondratieff Spring. The economic advance began hesitantly. Confidence was fragile; memories of the Great Depression were very recent. As the economy began to gather pace, fiscal conservatism was slowly abandoned. By the time the Kondratieff summer was well underway (1970), the pace of credit growth increased to keep pace with inflation. Industry expanded rapidly to keep up with growing demand and relied heavily on bank financing to support its growth.

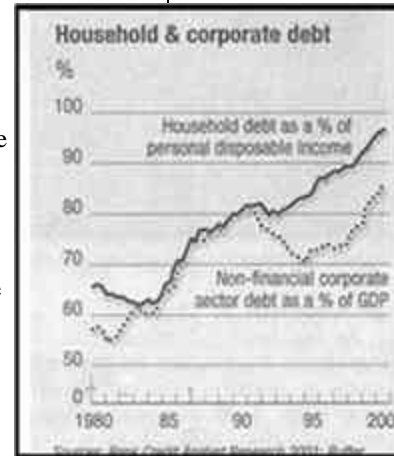
During the autumn, the principal beneficiaries of bankers’ largesse are consumers. Industry has already expanded during the summer to meet the growing world demand for its products. Towards the end of autumn, consumer and corporate credit rises to enormous levels on the back of huge gains in the real estate and stock markets. As the volume of credit expands, its quality declines. By the time the stock market reached its peak in 2000, speculation was rampant and consumers and corporations were borrowing huge amounts based upon ridiculously overpriced shares and real estate.

When the stock market crashes, as it invariably does during the early stages of winter, the credit bubble is exposed, built as it has been on a pile of hopelessly overvalued assets. It is then that the painful process of credit deflation begins and the Kondratieff winter places its icy hands around the necks of both creditor and debtor alike. The current process of credit deflation is just beginning. There will be no V-shaped recession, which is what most economists are predicting; but there will be negative growth over a protracted period as the process of debt liquidation unfolds. Undoubtedly, this process will take far longer than it normally should, because the Government will attempt to interfere, much as the Japanese Government has been doing for the past ten years.

There is good reason why debt escalates to such frightening proportions during the Kondratieff autumn. The real savings, which were apparent at the end of winter, are slowly depleted during the expansion phase. Consumers, corporations and even governments are forced to borrow to maintain their respective spending programmes. As autumn proceeds the intensity of their borrowing grows. This growth begins to challenge the integrity of the financial system, which begins to erode, evidenced by increasing bankruptcies and a rise in bank failures (remember the Savings and Loans crisis). Despite the worsening condition in the financial system, there is typically a staggering speculative boom in stocks, bonds and real estate.

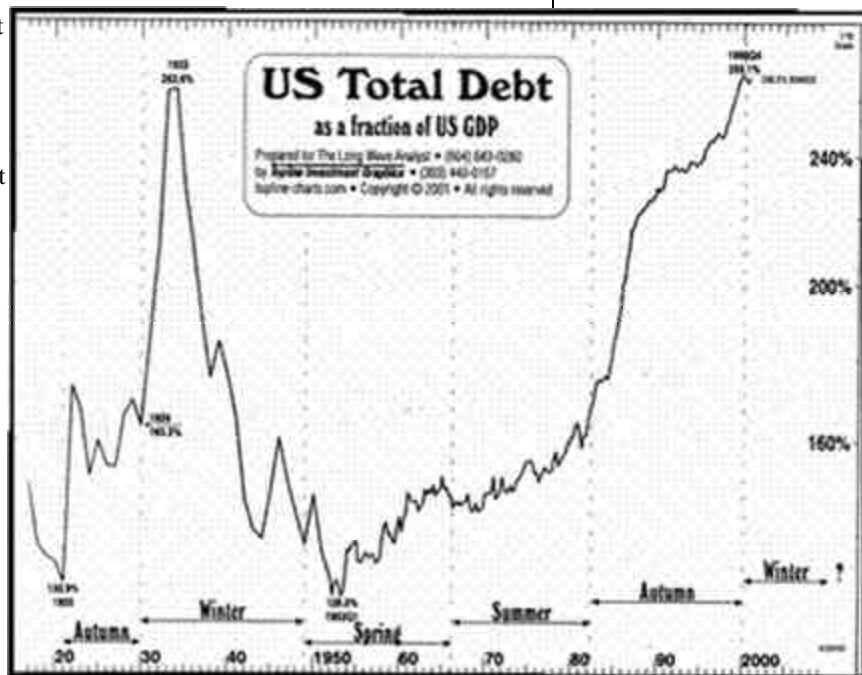
Certainly, falling interest rates and lower commodity prices support construction and real estate development. Most of this capital is committed to home construction, and retail and commercial buildings, rather than factories. But the real story of the autumn boom is the efforts of central banks to inject new liquidity into the system in the form of central bank credit or government subsidies to offset the lack of savings.

Because the capital sector is already overbuilt, this influx of money can only be employed in real estate and securities. As these investment mediums rise in value consumers use their new paper wealth to engage in an orgy of mass consumption. “The most readily identifiable elements of a Long Wave Plateau (autumn) are a real estate boom and a stock speculation mania, which drive both real estate and stock prices to excessive and unsustainable levels. And the use of fiat credit to finance this speculation orgy only debases the financial system, so that the Plateau (autumn) ends with a collapse in real estate and stock values, and other financial crises that develop in the second phase of the downswing—the DEPRESSION.”¹¹ “Thus the plateau period is identified as an era of mass consumption, and short term speculation, rather than long term investment.”¹²



Prosperity based on mass consumption cannot last for long, because it requires a rapid and continuous expansion of credit, which leads to distortions and stresses in the financial system. These stresses are compounded by the diversion of much of this credit into reckless speculation. Thus, the mass consumption boom of the Kondratieff autumn only temporarily camouflages the growing instability within the financial system and the economy as a whole.

In 1929, the crisis became apparent when the credit system, which was financing both the mass consumption boom and speculation in the US stock market, collapsed. Nevertheless, throughout the so called prosperous ‘New Era’ 1920s there was a rising tide of business and banking failures and farm foreclosures, which might have served warning for what was about to transpire. When the credit bubble burst following the stock market crash in 1929 it led to a pitiful global economic depression. The current bubble is far larger and more widespread than that of 1929 and, once again, the leading proponent of this huge credit onslaught has been the US.



In 1929, the US entered the Great Depression as the world’s largest creditor nation with a paltry budget deficit. Today, it is the world’s largest debtor nation, running an official budget deficit of \$5.7 trillion; and there is substantially more debt off budget. Also in 1929, US corporations utilized the strong stock market to retire debt by increasing equity. “Company after company was taking shrewd advantage of this new appetite (for equity) to retire its bonds and issue new common stock in their place. ¹³ This time, US corporations have done the opposite; they have increased debt to retire equity.

So, in 1929, it was principally the US consumer who entered the depression in debt, largely

due to that great American plan, 'buy now pay later'. Today, every facet of the US economy is grossly indebted, which means that the repercussions are likely to be even more painful than they were during the last Great Depression.

Today, the combined debt of government, corporations and consumers in the US is in excess of \$25 trillion and debt per GDP is almost 270%, which is at record levels, and substantially higher than the debt per GDP in 1929 (see chart previous page). It is this enormous debt load which must be unwound as the Kondratieff winter unfolds; the implications are ominous.

This huge debt load will lead to the destruction of the economy. It has always been thus. The following writer knew that it was the debt/credit bubble of the late 1920s which would ultimately lead to the collapse of the US financial system at that time..

“This thing had happened before, many times; . . . and deflation followed; that the inevitable penalty for a boom was a crash.”

Freeman Tilden

In 1935, a relatively obscure novelist, Freeman Tilden, wrote a wonderful little book called A World in Debt. He introduced his book with a letter to his friend John J. Fox, in which he explained his reasons for writing such a book. “Well, I beg you to remember that, back in 1927 and 1928, when the world was a tornado of prosperity of the *paper persuasion*, I also said something else to you. I said that *this thing had happened before, many times; and invariably it had also happened that the balloon was pricked, and deflation followed; that the inevitable penalty for a boom was a crash; that whatever political party happened to be in power when the smash arrived, would be the object of loathing and contempt; and that for several years the disillusioned populace would be so busy pitying themselves that they would become the victims of every impostor and imposture that effrontery and ignorance could contrive and present. And, indeed, all this came to pass; but I could not pretend to be very wise about my prediction; for any man who had read history, and had managed to keep himself a little aloof from the maddened crowd, could have said the same: and no doubt many did.*

He is but a mean man who takes more than a transient pleasure in successfully prophesying a catastrophe (though Lucretius intimates that no man is above a touch of vanity); so, after a grim smile at the unhorsed cavalry of commerce—those mounted captains of industry and exploitation who had been accustomed to saddle and to spur just long enough to forget what one does with feet; and after a sincere ejaculation of pity for the wretched hoplites, washerwomen and sutlers who had ignorantly pawned their valuables to follow such leaders to the promised land of Something-for-Nothing— I began to speculate upon the principles that must lie behind such feast and such famine, such weal and such woe, such quondam luxury and such present misery. For there must be I considered if one could find them, very definite rules that produce, from the *identical causes, identical results over two thousand years of written history. And this unending procession from boom to crash and from crash to boom is one of the most constant of the phenomena associated with social man, we have sufficient testimony....*

The world has several times, and perhaps many times, squandered itself into a position where a *total deflation of debt was imperative and unavoidable*. We may be entering one more such receivership of civilization. It is a curious fact that in all such periods, men and governments persist in behaving, as creditors, as though the world were operating for cash; and as debtors, as though the economy of pure credit sufficed for all purposes. When one such passionate belief encounters another, the result is never very happy.....” Sincerely ever, Freeman Tilden Warner, New Hampshire.14

The perpetrator of this credit outrage is the Federal Reserve System, which was thrust upon the American people by a consortium of bankers in 1914. These founding banks are the principal shareholders and thus have a vested interest in its policies. Essentially, the Federal Reserve reports to the banks, not to the US government. The primary purpose of

the Central Bank is to print copious amounts of money. This gives the banks huge resources to underwrite great projects and even major international events, such as wars. The great expansion of the money supply by the Federal Reserve has given American corporations the means to buy valuable foreign assets with overpriced paper. For example, Citigroup Chairman, Sandy Weil, recently said, “We have the capital to utilize if the world situation deteriorates and there are opportunities that befall us”¹⁵ The bank wants to buy companies at bargain prices in financially-troubled countries such as Japan, Argentina and Turkey. The foreign backlash against American greed will, no doubt, become apparent in the forthcoming depression. Perhaps, the banks are using their vast resources to gain control of the gold industry. Loans are made on condition that production is hedged, sometimes well into the future. Hedging keeps the price of gold low. If gold were to rise above the hedged price, the gold company would be bankrupted and its assets would revert to the bank.

“It is a delusion to think that a depression caused by an over-expansion of credit can be resisted. All the panaceas, nostrums and quack remedies invented by all the world cannot hold off the eventual day of reckoning.”¹⁶ And so it will be for Alan Greenspan. In the 1960s he confided to my friend, Teddy Butler-Henderson,¹⁷ that there was nothing that he would like more than to be Federal Reserve chairman at the time of the Kondratieff winter. Under the circumstances he promised that he would do everything that he could to defeat it via aggressive interest rate reductions and huge increases to the money supply. These are the only two instruments available to the Central Bank. He has his wish and he is certainly implementing his predetermined strategy, but it is failing. One factor that Mr. Greenspan failed to consider is the effects of mass psychology on the markets in general and spending in particular. And he has little influence over that, anyway. The crowd is rapidly losing confidence. Incidentally, Mr. Greenspan told Teddy, that if he failed, it would make what followed 1929 look like a ‘Sunday school picnic.’ You have been warned.

“The cause of *all* panics, crashes and depressions can be summed up in only four words: the misuse of credit. When credit is not covered by tangible assets it becomes fiat credit. The final years of the long wave plateau are characterized, not only by a reckless expansion of credit, but by the widespread delusion that there is no limit to the availability of such credit.”¹⁸

The Federal Reserve – Then and Now

The actions of The Federal Reserve in the Kondratieff autumn of 1921 through the early years of the depression and those of The Federal Reserve from 1982 to the present are remarkably similar.

1. *The beginnings of the autumn stock bull markets*

In 1981, interest rates in the United States reached levels never seen before in the country’s history. On the 5th of May 1981, the Federal Reserve discount rate was set at 14%. It was no secret why interest rates should have reached these astronomic heights. Commodity prices had just peaked at unprecedented levels, the highest rate for the cycle, brought about by the inflationary pressures resulting from the monetary costs of the Viet Nam War. That interest rates and commodity prices reached these record levels was entirely due to the fact that the Federal Reserve was no longer constrained by gold. As the expected summer-ending recession got underway, the Federal Reserve quickly responded by cutting rates a full percentage point on November 2, 1981. Another full point cut quickly followed. By the end of 1982 the discount rate was down at 9% and the great bull

The excesses during this period make the Roaring Twenties look small. We have borrowed unbelievable amounts of money, we consumed it, we’ve wasted it, and now we’re in a real pickle. ¹⁹

***David Tice
Prudent Bear Fund***

market was underway. By 1994, rates reached an autumn low of 3%.

The story in the early 1920s is the same. Commodity prices reached their peak in 1921. Nowhere near the prices achieved in 1980, but still at the highest point for that particular Long Wave cycle. This inflation corresponded to World War I. Interest rates, too, as would be expected, topped at 7% on June 1, 1920.. This resulted in a horrendous recession, which frightened the newly created Federal Reserve. It cut rates twice by a half percent and the discount rate ended 1921 at 6%. The following year, the rate was cut to 5%. This gave impetus to the 1921-1929 stock bull market. The lowest interest rate recorded during this autumn cycle was 3.5%.

2. *Cutting rates to propel stocks to their final peak*

In the spring of 1927, Montague Norman, Governor of the Bank of England; Hjalmar Schacht, Governor of Reichsbank; and Charles Rist, Deputy Governor of the Bank of France, met with Benjamin Strong in New York and urged him to adopt an easy monetary policy. If the United States failed to cut interest rates, they warned, it would result in dire consequences not only for the European economies, but also for the United States. As it had done in 1925 following a similar warning, the Federal Reserve cut the discount rate from 4% to 3.5% and purchased government securities in considerable volume. This provided additional liquidity to an already frothy stock market. Adolph C. Miller, a dissenting member on the Board, subsequently described this action as “the greatest and boldest operation ever undertaken by the Federal Reserve System, and...(it)

resulted in one of the most costly errors committed by it or any other banking system in the last 25 years.”²⁰ Sometime later, Alan Greenspan wrote disparagingly about the actions of the Federal Reserve during that time. “When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve’s attempt to assist Great Britain who had been losing gold to us because the Bank of England refused to allow interest rates to rise when market forces dictated (it was politically unpalatable). The reasoning of the authorities involved was as follows: if the Federal Reserve pumped excessive paper reserves into American banks, interest rates in the United States would fall to a level comparable with those in Great Britain; this would act to stop Britain’s gold loss and avoid political embarrassment of having to raise interest rates.”

“The excess credit which ‘the Fed’ pumped into the economy spilled over into the stock market—triggering a fantastic speculative boom.”

Alan Greenspan

“The ‘Fed’ succeeded; it stopped the gold loss, but it *nearly destroyed the economies of the world in the process. The excess credit which the ‘Fed’ pumped into the economy spilled over into the stock market-triggering a fantastic speculative boom.* But it was too late; by 1929 speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenching and a consequent demoralizing of business confidence. As a result the American economy collapsed.”²¹

Unfortunately, Mr. Greenspan has forgotten these words and he is likely to be haunted by them. Under remarkably similar circumstances following the Long Term Capital Management debacle in 1998, he set about aggressively cutting rates and expanding the money supply to save the world economy. The discount rate was cut from 5% to 4.75% on the 15th October 1998. This was followed by another quarter point cut on the 19th of November. Mr. Greenspan’s actions and those of his predecessor, Benjamin Strong directly contributed to two years of unbridled speculative excess in the stock markets. We have just begun to pay the price of these actions. Our experience is likely to be as traumatic as that of Americans in the 1930s and for that we have Mr. Greenspan to thank.

3. *Raising rates to suppress speculation*

In The Long Wave Analyst, dated December 1998-February 1999, I wrote, "I have long maintained that the key to continuing American prosperity rests on a rising stock market. What I question is how much further this stock market can climb (The DJIA was at 9643 at the time). I think that the stock market is teetering on the edge of a cliff, and all that is required is something to push it over the edge. What that something is I do not know, but it has usually been rising interest rates."22

And so it was. In an effort to curb the growing speculation in the market, although he did not say as much, Alan Greenspan increased the discount rate by a quarter point to 4.75% on August 25th 1999. Since this did not seem to have the desired effect he continued to raise rates by a quarter a point a time, so that by 18th May 2000, the discount rate reached 6%. There it remained until January 4th 2001, when the great 'Maestro' panicked by cutting the rate an unprecedented half a point.

These actions were similar to those of the Federal Reserve in 1928. Concerned about the robust speculation in the stock market, it started a series of rate increases. The first increase of half a percent raised the discount rate to 4% on February 7th. Another half point increase took place on the 25th of April and another similar increase on the 14th May 1929 took the discount rate to 5%. On August 7th, 1929, the discount rate for New York member banks only, was raised to 6%. By unhappy circumstance the two peak discount rates were the same 6% going into the market decline.

4. *Cutting rates to save the stock market and the economy*

The day following the stock market crash on October 28th and 29th, 1929, the Federal Reserve acted quickly by cutting the discount rate for the New York banks by 1%, which was in line with the rest of the country at 5%. Another half point cut on the 8th of February 1930 was followed by another similar reduction on the 15th of April, bringing the rate down to 4%. The Federal Reserve was somewhat constrained in its ability to act by the gold exchange standard system, which allowed anyone to convert dollars for gold at \$20.67 an ounce.

Currently, the Federal Reserve is also restricted. First, it must set interest rates high enough to attract foreign capital. It is for this reason that the US is begging the European Central Bank to lower its interest rates. This bank appears to be playing hardball and it has refused to budge on its interest rate policy to accommodate America. Second, it cannot afford to harm Japan, which is hanging on the precipice of a deflationary depression. Reducing rates too much will effectively devalue the dollar against all currencies, but most importantly the yen. Also, a series of rapid rate reductions would show the world how worried the Federal Reserve is about the US economy, possibly frightening foreign investors, who could abandon their US dollar holdings.

This would negate any Fed rate cut, because longer term interest rates in the US rise dramatically. There are portents that this is already happening.

As the stock market started its collapse in October 1929, The Federal Reserve acted to stabilize the situation. It instructed the New York member banks to move into the call loan market (margin), which had been abandoned by non-member banks, corporations and the European contingent. In the heydays of the bull market all of these institutions had been heavily involved in the call market. The New York banks filled the breach by acquiring an additional \$1 billion in call loans during October. These banks also asked their affiliates to restrain margin calls and do whatever was required to halt the panic. Some of the money for these actions was raised through rediscounting operations at the New York Federal Reserve Bank and the remainder through the sale of US treasury bonds. "Thus, the member banks prevented a widespread panic in November, and were

"After much
laughter, tears."

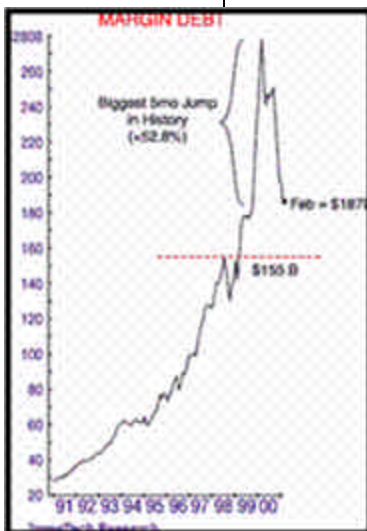
Finnish saying

backed in this by the resources and leadership of the Federal Reserve.” 23

In fact, the New York Federal Reserve far exceeded its authority to act. The Open Market Committee had pledged not to buy more than \$25 million of short-term notes per week. George Harrison, who had succeeded the legendary Benjamin Strong in 1928, ordered the New York Federal Reserve Bank to purchase an additional \$160 million worth of notes and to continue this policy as long as was necessary. By the end of November, the Bank had purchased more than \$370 million of these securities, pumping a like amount of money into the banks. When criticized by his boss, the Federal Reserve Chairman, Roy Young, Harrison told him “it is not at all unlikely that had we not bought governments so freely, thus supplementing the reserves built up by large additional discounts, the stock exchange might have had to yield to the tremendous pressure brought to bear upon it to close on some of those very bad days in the last part of October.”²³

It was of course, to no avail, nor will Alan Greenspan succeed, because increasing stock market losses and a gathering tide of bankruptcies will drown his efforts just as they did the efforts of the Federal Reserve between 1929 and 1933. However, he has resorted to precisely the same tactics employed by his 1929 predecessor.. On January 4th 2001 he cut interest rates .5%. Another cut on the 31st of January reduced the discount rate to 5%. On 20th of March rates were further reduced to 4.5%. It is interesting to note that these three rate cuts have done nothing to propel stocks higher. On January 3rd, the DJIA closed at 10945 and the Nasdaq at 2617. Another 50 point interest rate cut was announced on Wednesday April 18th, bringing the discount rate down to 4%. On April 15, 1930 (note the proximity of the two dates), the rate was also cut to 4%. Two days later, the Dow Jones Industrial Average completed its first bear market rally, and then spiraled into a vicious decline.

It remains to be seen whether the surge in stock prices following this latest panic interest rate cut from Mr. Greenspan will have any staying power. If history is the judge, I do not think so.



Comparing the Two Stock Markets

Stock market manias only happen during a Kondratieff autumn and they are always accompanied, indeed fed, by a huge but unsustainable injection of credit.

On August 12th, 1982, US share prices bottomed, with the Dow Jones Industrial Average at 777 points. Very few people anticipated the great bull market which lay ahead. Robert Prechter 25 of Elliott Wave fame forecast a huge bull market with a price target of 3600 for the Dow Jones Industrial Average. Most people scoffed at such a prognostication, which confirms that the crowd’s expectations for the future are based upon its most recent experiences. Stocks were in a bear market at the time. Mr. Prechter’s critics likely saw nothing out of the ordinary when stock prices surpassed his projected level by almost three times. They were probably too engrossed in the stock market mania and were oblivious to that fact. After all, a bubble is invisible to those who are inside of it.

At the time, most analysts failed to recognize that this was the bottom of the bear market, and the crowd was not conditioned to buy shares. Since the end of spring (1966) stock prices had under-performed real estate, commodities and gold. The summer-ending bear market (1981-82) reinforced their skepticism

In 1919, the DJIA peaked on November 3rd at 119.62 and stocks went into their summer-ending bear market and reached a low in 1921 with the Dow Jones at 63.90 points.

“Bloated stocks, commodities, and inventories were summarily excised in 1920, as within months, super-inflation turned into the worst deflation since the post Civil War period. The violent reversal from boom and wild inflation into recession and deflation would be repeated in 1981-1982.”²⁵ (Isn't it comforting when someone else corroborates what I have been telling you -- that what happened in 1920-1921 was repeated in 1980-1982? Both periods, of course signified the end of a Kondratieff summer and the beginning of a great bull market in stocks.)

From these two bear market lows, stocks began to rise with support from a benevolent Federal Reserve, which lowered interest rates and increased the supply of money to the banks. The majority of this money flowed into the hands of consumers who, with increasing confidence, entered the realm of speculation. The final two years for both stock markets saw speculation rise to hysterical levels.

In both cycles, the Federal Reserve raised interest rates in an attempt to dampen over-enthusiastic speculation. This preceded the respective bull market tops by one year.

Both stock markets captured the attention of the nation and were unprecedented in terms of speculative intensity and crowd participation. It is estimated that at its peak in 1929 some 3 million Americans were buying stocks. In comparison, a huge 52% of American families are now invested in the stock market.

The growth of margin debt in both stock markets was phenomenal. In 1921, margin debt was only \$1 billion, but by 1929 it had grown to \$8.5 billion. It wasn't until 1977 that this level was reached again. When the bear market bottomed in 1932, margin debt had dwindled to a paltry \$690 million.

In September 1982, margin debt in the United States was only \$11.2 billion; by March 2000 it had risen to an incredible \$278.5 billion. If margin debt in this bear market is to emulate that of the 1929-1932 bear market it will fall considerably below the level seen in 1982.

By the time both stock markets peaked they were trading at record value levels. At its peak the 1929 stock market was trading at around 20 times earnings and the dividend yield had dropped to a 3.25%. These levels were considered excessive at the time, but they would pale by comparison to the stratospheric heights reached in the year 2000. By then the Nasdaq was trading at more than 200 times earnings. The Dow Jones Industrials traded at 28 times earnings and paid a paltry dividend of 1.3%.

Because the Dow did not attain the excessive levels of the Nasdaq and S&P 500, market analysts have argued that it was not part of the mania. But it was. DJIA value levels in 2000 were considerably higher than those reached in 1929. The 1929 bull peak was up only 5.75 times from the 1921 bear market low, and at the time was called a mania! From 1981-2000, the Dow was up 15 times from its initial price level; therefore, all the US stock markets and almost all shares, with the obvious exception of gold shares, participated to a lesser or greater degree in the bull market mania of the 1990s.

One last thing -- the breadth of both markets topped well in advance of the final stock market peak. This should have signaled that the end was in sight.

Professional Money Management-The Growth Industry of the 1990s.

The growth of mutual funds was a phenomenon of both markets and, because they were professionally managed, they were viewed as a means to conservatively participate in the

“This reluctance to concede that the end has come is also in accordance with the classic pattern.”

John Kenneth Galbraith

market.

In 1921 there were approximately 40 investment trusts, akin to modern closed-end mutual funds. By 1929, these investment trusts were being issued at the rate of one a day; by the end of that fateful year, there were more than 850.

The 1982–2000 bull market spawned a similar growth in the industry. There were only 665 registered mutual funds in 1981. The real growth took place in the 1990s. By November 2000, the total number of funds registered in the US had risen to 8157. These funds were all competing to buy stocks. As long as stocks kept going up, more money flowed to the funds to buy even more shares at ridiculous prices. At the bull market peak there were more mutual funds than there were stocks listed on the New York exchanges. And yet, virtually no one recognized anything crazy in all of this.

*The 'eathen in his
blindness must end
where 'e began.*

Kipling

Following the 1929 stock market crash, most investment trusts faded into oblivion. They did not reappear until the late 1950s. "This 'professional management' would be the last great sales cliché of the 1920s. By the record, it worked only as long as the market kept going up."²⁶ This time they were called mutual funds, because the term investment trust had left a sour taste in the mouths of most investors. Although many went out of business during the 1972-1974 bear market, those which survived were able to attract new resources; thus, the mutual fund industry began its slow revival into the autumn bull market and exploded in popularity in tune with an ever-increasing affection for stock market investment.

How far and how long, this bear market?

The two autumn stock markets exhibited remarkable similarity in their rises to the top, and we should expect similarities on the way down. Gann said, "the decline must be in proportion to the advance", and "like causes produce like effects".

A bear market usually lasts approximately one-third of the time of the preceding bull market. For example, the 1929-32 bear market lasted approximately 2½ years, following the eight-year bull market. Since the 1982-2000 bull market lasted 18 years, we can expect the bear market to be with us for six years (2006).

We can be confident about one thing in predicting the price level which stocks will reach at the bottom of this bear market: it will be the most severe of this Kondratieff cycle. Prices will decline far more than they did between 1973-1974, which has been the biggest bear market of the cycle so far. During that bear market the DJIA lost 45%. This bear market will correct the entire bull phase which started in 1949, the birth of Spring.

The major differences between the two autumnal stock markets were time and price. The Third Kondratieff Autumn Stock market lasted eight years and gained nearly 500%. The 1982-2000 stock market lasted 17-1/2 years and gained more than 1400%. I repeat W.D. Gann's warning, "when the decline sets in, it must be in proportion to the advance." Given the evidence, only an extreme optimist could project that the coming market decline would be short and sweet. Evidence suggests that the coming bear market should be nothing less than that experienced between 1929-32, even though this time the size of the paper bubble is significantly larger than it was in 1929. Between 1929 and 1932, the DJIA declined by 89%. The same proportional decline during this bear market would take the DJIA to **1300**. This then is a projected low for stocks in this Kondratieff Winter.

There are two lower projections that can be calculated by referring to the third Kondratieff bull market, but 1300 points is low enough! I will keep the other two projections in my desk drawer.

Though I may be criticized for my measured pessimism, the argument that ‘this time it’s different’ was used during the latter stages of this bull market and in 1929. Job losses, declining wealth and corporate bankruptcies are instilling fear into the crowd. The players might be different but emotions have not changed. Fear usually leads to panic, and leaders have no control over panic.

Though my target invokes howls of anguish and cries of indignation, it is important to remember what investors thought of Mr. Prechter’s bull market target back in 1981. They ridiculed it and yet it was surpassed by more than threefold. Some people suggest targets which are far less damaging than mine, but their targets are based on nothing but hope and a rationalization that the market could never get that bad. A client once admonished me; “I live in reality, not in hope.”

The reality is that we have now begun the Kondratieff winter bear market and it is likely to be every bit as devastating to investors as was its predecessor. “The majority of people, including the Fed, continue to underestimate the significance of the top in stock prices last year and the subsequent downturn in the economy. Both events and the perception of, and reaction to, those events continue to be very reminiscent of the early 1930s. We have heard the productivity argument-that technology has so enhanced the productivity of the American worker that this is a structural change in the economy that will help prevent or cushion a severe economic contraction. The same thing was believed in the 1920s and 1930s. In 1910 it took 12 hours to produce an automobile. By 1913, it took 1.5 hours. In 1920 it took a minute, and by 1925, production time had been cut to 10 seconds per car. These productivity improvements dropped to the bottom line until the bottom dropped out of the economy, and then most people could not afford a car, no matter how cheap it was to produce. We have heard the argument that the decline in the stock market is just a correction in overvaluation, a return to sanity after ‘irrational exuberance.’ This was believed after the crash in 1929, especially after the powerful countertrend rally into the spring of 1930. What people failed to understand was that because the average person played the market in the 1920s, not just the wealthy, the markets crash affected just about everyone in America. The same thing has occurred today, with an unprecedented percentage of American households with the bulk of their financial assets in stocks. This is much bigger than Wall Street and dot-coms getting their comeuppance after years of easy gains.

Businessmen, economists, politicians, and the Fed all believed that the recession of 1929-30 would be self-limiting. This was one of the reasons for the failure to pursue counter-measures until it was too late. Even after it was evident that the stock market and economy were in deep trouble, policy makers chose not to pursue expansionary monetary and fiscal policies because they believed such action would shake investor confidence. We have heard similar arguments in recent months. . . The Fed is not cutting rates more aggressively because it is concerned that such a move would further undermine confidence.”²⁸

So there you have it from a brilliant market analyst. Without any reference to Kondratieff, Ms Berge can see the acute similarities between the early 1930s and the present. Ms Berge ends her letter this way. “The above is not meant to be a blueprint for an inevitable dismal future. But there is potential for a similar course of events...”²⁸

The blueprint is the Kondratieff Cycle.

Crowd Psychology

“The memorable events of history are the visible effects of the invisible changes of human thought”²⁹

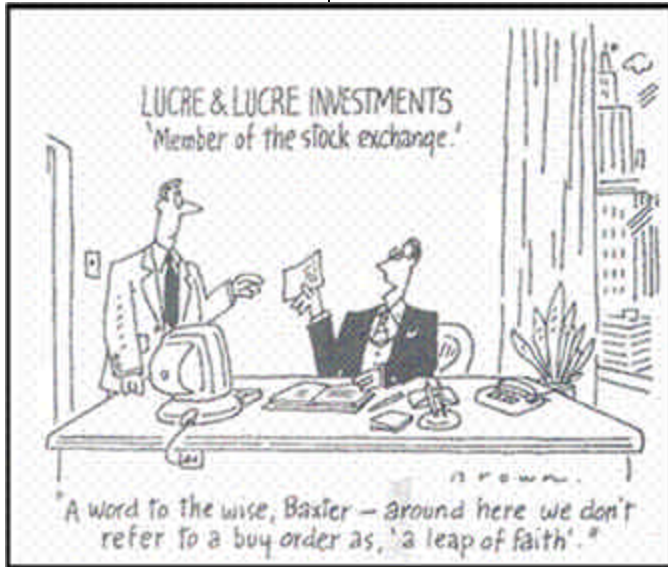
Most analysts ignore the importance of how the crowd influences events. They believe that

leaders determine the economic outcome. They do not. Crowds have the ultimate say in how events will unfold. When events turn sour, crowds desert their leaders.

“From the moment that they form part of a crowd the learned man and the ignoramus are equally incapable of observation.”³⁰ Crowds believe in things that are clearly not true. During the dot.com mania, when an issue a day was coming to the market, the crowd not only rushed in to buy, but bid the prices up to obscene levels, even though these companies had limited revenue and some none at all. Nevertheless, speculators were convinced that this was indeed the ‘new era’ and these companies were in the forefront of a new technological revolution, just as investors had believed in the “new era” of 1929. Many of these ‘hot’ issues came to market with prospects similar to those that were floated in a bygone mania called the South Sea Bubble. It is difficult to comprehend that anyone would

invest in “A company for carrying out an undertaking of great advantage, but nobody to know what it is,”³¹ But, many investors did; such is the foolishness of crowds during an investment mania. “The mad cannot communicate their madness; they cannot perceive it and resolve to be sane.”³²

During those heady days in early 2000, when the market rose day after day, the crowd was totally immersed in the stock market, and 52% of American families were beguiled by the apparent ease in which money could be made. The investment crowd was so large that it possessed a collective feeling of omnipotence and invincibility. “The certainty of impunity, a certainty, the stronger as the crowd is more numerous, and the notion of considerable momentary force due to number, make possible in the case of crowd sentiments and acts impossible for the isolated individual. In crowds the foolish, ignorant, and the envious persons are freed from the sense of their insignificance and powerlessness, and are possessed instead by the notion of brutal and temporary but immense strength.”³³



National Post

The crowd is always dependent upon leaders who can ignite its passion and steer it, cohesively, to the ultimate objective, which in the case of a stock bull market is enormous price gains. It “is a servile flock that is incapable of ever doing without a master.”³⁴ This is never more apparent than in the latter stages of a bull market or in the early stages of the bear market, because it is then that the crowd needs guidance from its leaders. It hangs on their every word. As the bear market unfolds, the leaders will continue to exhort their troops to stay invested. They use mantras such as ‘stocks are a long term investment,’ ‘don’t get out here, because you’ll be selling at the bottom;’ ‘shares will resume their upward trend in the second, maybe the third quarter.’ I visualize an unarmed rabble being urged forward by its leaders (who are, of course, in the rear) to take on the armed soldiers confronting them. The leaders refuse to recognize the bear market and urge the crowd to put their capital into stocks even though it is confronted by an impending massacre.

In a bull market, the crowd sees the leader as anyone who is connected to the stock market in a position that implies knowledge and understanding. Reporters at CNBC, market strategists and analysts at large investment firms, and even company CEOs who are interviewed regularly on financial newscasts have been awarded the leadership role by the masses. A very good friend of mine, a broker with a large Canadian bank-owned firm told me that one of his clients is a ‘check-out’ person in a large grocery chain. This lady came to the stock market relatively late in the bull cycle and traded with much of her savings in stocks that were promoted on CNBC. Most of these savings have now been lost and yet she professes that she ‘is not worried’. Such is the power of leadership. These leaders “are modern-day fortune tellers, promising untold riches as they peer in perpetually hazy crystal balls... Still they wield great influence. In a confused world where everyone is jockeying

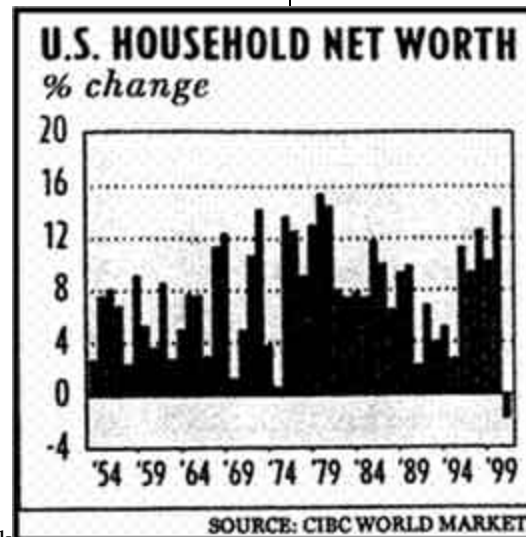
for advance intelligence on what to buy or sell, information is power. The ability of a single analyst to drive investors in or out (nearly always in) of a particular stock, once his views are amplified by the media echo chamber, is nothing short of awesome.” 35

Le Bon tells us that a leader “has been hypnotized by the idea, whose apostle he has since become. It has taken possession of him to such an extent that everything outside it vanishes and every contrary opinion appears to him an error or a superstition.” 36 This may explain why the media generally refrains from interviewing bear market proponents. He adds that leaders resort to three expedients to fill the mind of the crowd with ideas and beliefs. These are ‘affirmation,’ ‘repetition,’ and ‘contagion.’ “Affirmation pure and simple, kept free of all reasoning and all proof, is one of the surest means of making an idea enter the mind of crowds.” 37 There are no shortages of examples of affirmations constantly addressed by all leaders in the bull market. Just the word ‘buy’, used with gay abandon, was enough for the crowd to do as it was told. Even today, members of the Federal Reserve and in particular, Alan Greenspan, consistently deny a recession in the US so as to convince the crowd to keep spending money that it does not have.

Affirmation by itself has no firm influence unless it is accompanied by repetition. Napoleon said ‘there is only one figure in rhetoric of serious importance, namely repetition.’ “The thing affirmed comes by repetition to fix itself in the mind in such a way that it is accepted in the end as a demonstrated truth.”38 “When an affirmation has been sufficiently repeated and there is unanimity in this repetition, as has occurred in the case of certain famous financial undertakings rich enough to purchase every assistance- what is called a current of opinion is formed and the powerful mechanism of contagion intervenes.”39 These repeated affirmations spread a belief among all the individuals that comprise the crowd and they are driven to act in a cohesive and concerted way. This explains why the final moves to major stock market tops and bottoms are so powerful.

The final move to a stock market peak is fostered by very powerful collective emotions, such as greed and omnipotence. Peer pressure within the crowd is awesome. It takes courage not to be swayed by the powerful emotions of the crowd and to speak against the mania. David Tice, Bill Fleckenstein, James Grant, Richard Russell, Jay Taylor, Teddy Butler-Henderson are just a few of these contrary individuals. Collectively they have brought a dose of rationality to the proceedings. They are not ‘prophets of doom;’ they understand the precariousness of the financial system and they have told the truth. During the time leading up to the bubble peak, they were the proverbial voices crying in the wilderness and for the most part were ostracized by powerful bull market leaders. As Plato said many centuries ago: “Strange times are these in which we live when old and young are taught falsehoods in school. And one who dares to tell the truth is called a lunatic and a fool.”

The emotion of a crowd can change very rapidly, “which explains the suddenness of panics.”40 Panics in crowds do not evolve slowly, but happen soon after the crowd’s belief system has been sorely tested. The larger the crowd and the greater its enthusiasm for the cause the more disposed it will be to panic, after its belief system has been shaken. “The precise moment at which a great belief is doomed is easily recognisable; it is the moment when its value begins to be called into question. Every general belief being little else than fiction, it can only survive on the condition that it be not subjected to examination.”41 Belief in the Kondratieff 18-year autumnal bull market is now in question. This should condemn it to a tragic end. “Finally, when the belief has completely lost its force, and that rested upon it is soon involved in ruin.”42



Kondratieff Cycle and the Psychology of Crowds

When the present Kondratieff cycle began in 1949, the confidence of most people was fragile. The economy had been geared to war. In the post-war period, people feared there would be no work because the economy would revert back to a state of depression.

But, the Kondratieff winter had cleansed the economy of debt, and replenished the savings of individual Americans. So, the economy began to grow. America used its vast financial resources to rejuvenate most important world economies, world trade gathered momentum, and so did people's confidence.

When the Kondratieff spring turned to summer (1966), a new generation of wage earners took over from its depression-conscious parents. Somewhat mindful of their parents' devastating experience, because it had undoubtedly been the subject of discussion around the family dinner table, this new generation hesitantly borrowed money for major purchases. By the time the third generation grew into adulthood, the Kondratieff autumn was well underway (1990), and for it the Depression of the 1930s was not relevant. A booming stock market dispelled all financial caution, savings were depleted and debt was accumulated at an incredible pace encouraged by the active printing presses of the Federal Reserve. The same negative savings situation developed in 1929, although this followed a 20-year expansion of individual credit held on deposit. The American Bankers report made public at the end of June 1929 revealed that savings had fallen by more than \$195 million from the previous year. The Association suggested that the withdrawals were largely attributable to 'the lure of profits to be made in stocks'.⁴³

The problem is that the false prosperity of the plateau is sustained almost entirely by the pyramiding of debt, but much of this debt by the end of the plateau is supported by little more than public confidence; and confidence is a very fragile thing."

Donald Hoppe

Banks have displayed the same reckless behaviour of the masses at the peak of the Kondratieff Autumn. Their derivatives positions are frightening and the probability of a systemic collapse is high. The failure of so many banks in the early 1930s was almost entirely due to bad loans on their books. This led to runs on these banks because of the public's concern for the safety of their deposits. This time it is not only the nature and size of the loans that are held by many US banks, but also the sheer size of the derivatives portfolio which could be their undoing. During Japan's Kondratieff winter, the depths to which its banks have fallen from their once lofty position, is a portent of the future to be faced by many US banks.

We have been in a bear market for more than a year. The glorious feelings associated with the stock market peak have gone. Too much damage has been done. \$5 trillion has disappeared. The value of retirement funds is rapidly dwindling. The net worth of Americans is declining for the first time since records have been kept. They are losing their jobs.

Under the circumstances, the collective mood has turned to concern. Crowd euphoria will not recur until another autumn stock market peak, approximately 60 years from now. This pre-supposes that there will be another Kondratieff autumn. (The Kondratieff cycle is strictly related to capitalist economies. The structure of capitalism may be jeopardized by the severity of the coming economic dislocations.)

Recession And Beyond

*"The current economic conditions and excesses justify a depression larger than the one in 1929."*⁴⁴

It is truly amazing how quickly the great 'economic miracle' has started to fall apart. Not six months ago very few were suggesting that the US economy was in trouble. Only those perceptive enough to recognise the severe imbalances built into the structure of the US

economy could see what should have been staring everyone in the face. The primary causes are Federal Reserve monetary and fiscal policy and so-called 'hedonic' productivity numbers. The latter indicated America's economic situation as a lot healthier than it really was.

Signs that confidence is on the wane and that the US economy is falling into recession are everywhere and still the powers-that-be are in denial. The confidence of American CEOs has fallen to levels last seen during the 1980-1981 recession.

Consumer confidence fell to 109.2 in April 2001 from 116.9 in March. This was a four-year low and the Index has plunged from a 30-year high of 140 only last September. This far exceeds the one-year drop in that index which preceded the last four recessions.

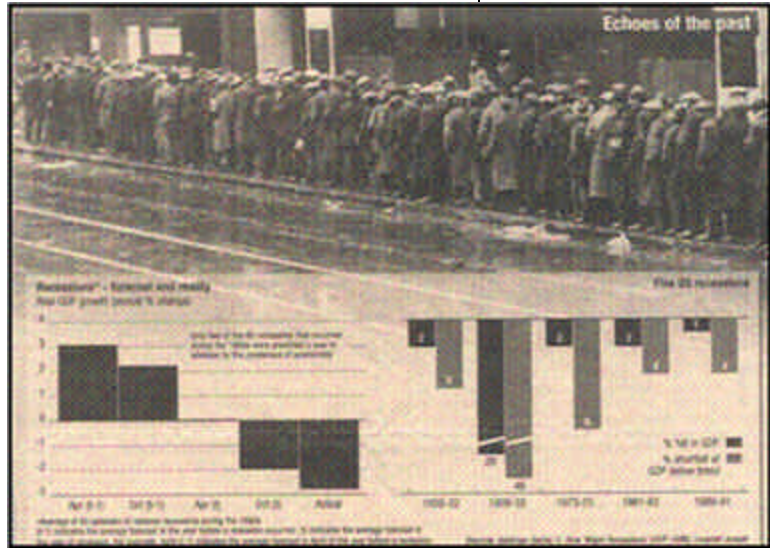
David Blitzer, chief economist at Standard and Poors, thinks that these figures are useful in predicting consumer spending, but not in measuring investor sentiment. That may be so because March retail sales fell 0.2%, with the purchase of durable goods, such as automobiles and domestic appliances especially hard hit. This prompted Walmart to issue a profit warning.

The most recent survey of investors by UBS/Paine Weber indicated that sentiment had sharply dropped to its lowest level in three years. This was corroborated by the \$15 billion taken out of mutual funds in March — a record outflow. Declining optimism is reflected in expectations for future stock gains, now 8.7% on an annual basis. This is 60% below expectations of a year ago. By the time this down leg is complete, expectations for future gains should be closer to zero.

Margin debt has declined by 33% in the past year from a record \$278 billion in March 2000, to \$187 billion as of the end of February. This is the sharpest decline in the history of the New York Stock Exchange. In the last five months alone, investors have reduced their borrowing for stocks by 25%. "It's fallen off a cliff," said Cary Leahey, senior economist at Deutsche Bank. It's a combination of the weak market, margin calls, the diminution of day trading and a pulling in of horns by investors." "It's a prima facie indication of the (level of) confidence in the stock market,"⁴⁵ said Clark Yingst, an equity market analyst at Prudential Capital Markets. He said that investors were not meeting their margin calls now, but were taking their losses instead.

But investors are still buying into the markets as evidenced by the remarks of Paul Graham, senior vice president of Fidelity Investments' online brokerage who said, "our new account activity is still strong. They're still opening them, they're just not buying on margin. They're paying for their stocks."⁴⁶ Although confidence is down it still does not reflect the growing severity of the decline in the economy, nor the numerous profits warnings being put out by major US corporations, nor indeed the \$5 trillion that has already been lost in the stock market. This illustrates how an 18-year old bull market has conditioned investors' thinking. Eventually, reality will prevail.

The US economy is slowing down in spite of massive infusions of money into the



Source: Financial Times

"We are on the threshold of the greatest disappearance of imagined wealth in history."

***Gert von Der Linde
August, 2000***

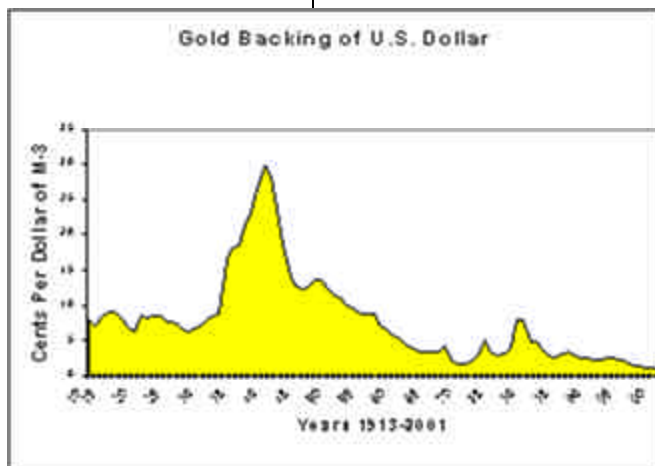
economy principally via money market funds and government-sponsored agencies, like Fannie Mae and Freddie Mac. These agencies with “tacit Fed support for continued reckless mortgage lending and financial sector leveraging is simply one more of a string of blatant financial excesses accommodated in this (painful to watch) historic episode of unrelenting monetary mismanagement. No doubt about this, this is but one more example of the Fed ‘Putting a Coin In The Fuse Box’ that is today only creating the clear and present danger of fostering a process that could end in financial collapse (‘Burning Down The House’).”⁴⁷

Signs that the US economy is slowing are everywhere. Corporate profits fell 4.5% in the last three months of 2000, and first-quarter earnings for the largest US corporations are likely to show a drop of at least 9% versus the first three months of 2000. This would be the worst performance in ten years. Layoffs are now occurring at a pace of 35,000 persons per week and unemployment is gaining momentum as the figures for March were 4.3%, which is the worst since 1991.

Hardest hit was manufacturing with 451,000 job losses since last June. In the past six months, 273,000 temporary jobs have been lost. Help-wanted advertisements have dropped to their lowest level since 1993 and temporary employment as reported by temporary agencies is at its weakest level in at least five years. Last month retailers cut 46,000 jobs and bars and restaurants 19,000 jobs. Credit Suisse First Boston is giving 400 employees the ‘pink slip’ and Morgan Stanley is releasing 1000 brokers or 7% of its workforce. Merrill Lynch, the number-one full service brokerage house, reported a decline in first quarter earnings as brokerage commissions, trading profits and investment banking fees dropped. The company is weighing selective staff cuts. “We are cautious about the near term outlook, and are accelerating our actions to reallocate resources,” reported David Komansky, chief executive.

As corporate profits continue to fall these statistics can only get worse. “Wall Street still in denial, should consider that January’s new unemployed was 640% higher than January 2000. February was up 329% and March 385%. ...As the song goes, ‘we’ve only just begun.”⁴⁸ John Chambers, Cisco’s CEO, describes the collapse in demand for its network equipment as “a 100-year flood”⁴⁹. No, John, it’s only a 72-year flood (or one Kondratieff cycle).

In spite of this damning evidence, consumers continue to spend and increase their debt. With no savings they are headed for financial disaster.



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The Collapse Of The World Monetary System

Between 1931 and 1933 the world monetary system based upon the gold exchange standard, disintegrated.

For 100 years before World War I and into the 3rd decade of the 20th century, the British pound was the world’s key currency. As the international economic crisis worsened there were many in Britain and elsewhere, who urged that the pound be devalued in order to make British goods cheaper on world markets, in order to stimulate exports, reverse Britain’s declining trade balance and revive world trade. John Maynard Keynes was the leading advocate of devaluation. Initially, this was resisted by the Government and the Bank of England, but in September 1931, there was a run on Britain’s limited gold reserves. The British

authorities had two options: defend the pound by raising interest rates or abandon the gold standard and let the pound sink. Raising rates, at a time when unemployment was rising, was not politically acceptable and Britain chose to abandon gold. A similar dilemma is now facing the US.

In the three months following this decision, the pound fell by 30%. This did not bring about a revival in British trade because other countries rushed to devalue their currencies by going off the gold standard to prevent Britain gaining any 'advantage'. World trade did not revive; it collapsed completely. A financial historian of that era, M.J.Bonn, summed up this tragedy as follows:

“September 20, 1931 was the end of an age. It was the last day of economic liberalism in which Great Britain had been the leader of the world. She had built a mighty empire on five continents by political domination and economic development. Now the whole edifice had crashed. The slogan, ‘Safe as the Bank of England,’ no longer had any meaning. For the first time in its history a great nation had defaulted on its currency and by doing so had inflicted heavy losses on all those who had trusted it.” 50 Historians are likely to write in a similar fashion when explaining the collapse of the US Dollar.

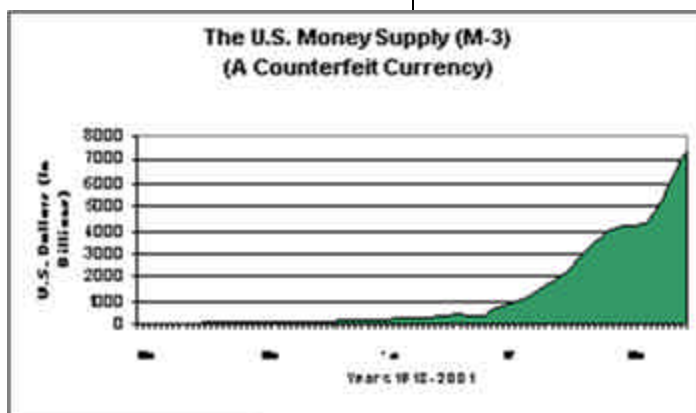
Dollar Supremacy

In this Long Wave, the US has replaced Great Britain as the financial centre of the world and the dollar has replaced the pound as the world's most important currency. In fact, it is the world's reserve currency. Gold, not the pound was the reserve currency until 1931. Therefore, confidence in the dollar is paramount in upholding the world's financial and monetary system. Confidence in gold has never been a problem; indeed, while it underpinned the international monetary system, that system was never in doubt. In the case of the dollar, confidence has always been a problem.

From the defeat of Napoleon to the beginning of World War I, the British pound, pegged to gold, enjoyed the confidence of all leading nations. This confidence was the platform upon which was built a century of monetary stability and unprecedented expansion in international trade. There is little faith in the dollar, which is based on paper.

The role of the dollar as the leading world currency was established at Bretton Woods in 1944. At the time, other nations' currencies were pegged to the dollar, but the dollar was pegged to gold. Any nation could exchange their dollars for US gold for \$35 per ounce. Initially, most countries were confident that the mighty dollar was as good as gold. Weaned from having an overall gold backing for the dollar, America resorted to the printing of paper dollars. This was made evident during the war in Viet Nam and President Johnson's 'New Society' program. As a result, countries started to swap their paper dollars for American gold.

By the end of the 1960s, so much gold was leaving the US that, like Britain in 1931, America was forced off the last vestiges of a gold standard system on August 12th 1971. The dollar was now a fiat currency. “There has never been a case in history where even one nation has successfully managed a purely fiat money system, based on fiat government credit, for any significant period of time. Every prior attempt (and there have been hundreds) has ended in hyperinflation. Yet we now have the entire world on such a



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system”51

If there had been a decided lack of confidence in the US dollar when it could be exchanged for gold, it stands to reason that confidence should have been even more fragile when gold’s underpinning was taken away. And so it was. But there was no alternative. Foreign banks, rather than build their reserves on US gold, were forced to accept US paper. Increasingly, the United States has taken advantage of the situation, by printing huge amounts of paper dollars to finance its overseas expansion. It has relied on the fear of foreign investors and nations to finance its growing deficit. This fear is that the dollars they hold will be worthless, and therefore, in their best interests to support the currency. It has built an enormous debt bubble through an obscene expansion of the money supply. This huge growth in paper dollars has been fed to a voracious stock market, which has attracted a large inflow of foreign capital, giving the appearance of a strong dollar. Everything must be done to maintain the charade. But the house of cards is starting to look decidedly shaky. The US stock market has cracked, yields on long-term US Treasury bonds are rising in spite of a failing economy, and the dollar appears to be in decline.

In 1971 there was no alternative to the dollar, but now there is the Euro, which was created to compete with the dollar. The Euro is 15% gold backed. If the dollar were backed by gold, it would be at less than 1%. (see chart)

Over the past 21 years, gold has performed very poorly against paper, as would be expected. But it has still outperformed the dollar. Despite the fact that the US is doing

everything it can to keep the price of gold down, the precious metal has still risen from \$35 in 1971 to \$260 today. The Kondratieff winter promises that the pace of dollar depreciation versus gold will dramatically increase in the next few years.



Collapse of the Dollar Monetary System

During the early stages of a Kondratieff winter, the monetary system usually collapses. The US abandoned the bi-metal system in 1873 and subsequently adopted the gold standard. Then, in 1931

the gold exchange standard system collapsed. Given the fragility of the dollar based as it is on a mountain of debt, it can be confidently predicted that this system, too will fail. As winter really gets underway and US stocks and bonds fall even further, the image of the almighty dollar will vanish. Foreigners will dump their dollars and with the uncertainty of the world financial and monetary system, they will place a goodly portion of their dollar holdings into gold. This is what they did after 1931.

When the American people realize the wealth that they once had is lost; when large numbers of them have been forced into bankruptcy, and are wandering the streets looking for work, they will be overtaken by a righteous anger. They will blame the irresponsible printing of money and will demand a return to monetary discipline, as all civilians before them have done after they have become impoverished through a government-imposed fiat money system.

Unlike Britain, America has thoroughly mismanaged her monetary stewardship. That responsibility is about to be taken away from her.

The following is an interesting coincidence:

?? the panic of 1873 occurred one year after the election of Ulysses S. Grant, Republican.

- ?? the panic of 1929 occurred one year after the election of Herbert J. Hoover, Republican.
- ?? the panic of 2001 may occur one year after the election of George W. Bush, Republican.

Winter— The Time For Gold

“Time will run back, and fetch the age of gold.” Milton

If autumn is the season for paper assets, winter is the primary season for gold. The reason: all paper asset values disintegrate during winter. The extreme values paper assets have accrued during autumn are built on debt. As their values crumble, the debt edifice collapses, putting tremendous pressure on the banking system. During the early 1930s as many as 10,000 US banks closed their doors. In fact, to halt the panic, President Roosevelt declared a 10-day bank holiday following his inauguration. Throughout history all debt bubbles have eventually burst, bankrupting creditor and debtor alike. This collapse of paper assets (stocks, bonds and real estate) causes a flight to gold and cash, accompanied by a deep distrust for paper.

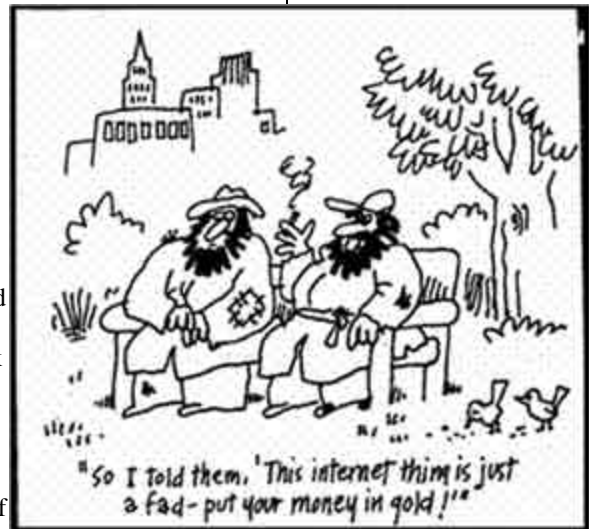
As the financial crisis of the 1930s deepened there was a flight to gold which forced the European nations and ultimately the US to abandon the gold standard and devalue their currencies. The first stage of the crisis was caused by collapsing securities, both stocks and bonds. This caused a flight to *short-term* financial assets, including bank deposits, treasury bills, commercial paper and paper currency. The crisis intensified, more banks failed, causing widespread fears about the safety of the banking system itself and the integrity of paper currency.

The second stage occurred between April 1931 and March 1933. This period “saw the great rush to gold. Foreigners cashed in, not only their American stocks and bonds, but also their dollars and hauled American gold away by the boatload. Americans converted their paper deposit dollars and bank deposits into gold coins and stashed them in mattresses, hid them in basements or attics or took them on a one way trip to Bermuda or the Bahamas. By July 1932, Treasury Secretary Mellon secretly informed President Hoover that the Treasury, the Federal Reserve and the banking system were being drained of gold at such an accelerating rate that the collapse of the gold standard was imminent, and if the US went off gold, the dollar itself could suffer a severe decline in the foreign exchange markets. 52

Naturally, the President publicly denied that the US would be forced off the gold standard, and that the dollar and the banking system were not in danger of collapse. President Roosevelt was inaugurated in March 1933, and by this time the fears of the Treasury Secretary had become realities. The entire banking system had collapsed. The US dollar was being repudiated in the foreign exchange markets and America had virtually run out of gold. To avoid a complete collapse of the dollar in the foreign exchange markets, the new President declared an embargo on all further exports of gold and ordered the surrender of all privately held gold coins and bullion.

“Those who had fled to the safety of gold itself were, in the end, undone by Government fiat. However the holders of gold mining stocks were unaffected by the gold surrender order and subsequently made large profits.”53

Before the stock market crash of 1929, savvy investors were already purchasing gold as a



form of insurance. In 1928 the great American financier and advisor to Winston Churchill, Bernard Baruch, “started buying gold from Alaska Juneau Mines (the gold shares in the company), and told friends to watch the economic statistics with care, for a stock market crash might be in the making.”⁵⁴

Sooner or Later Every Market Will Hand You a Super Bargain

The price of gold under-performed during the Kondratieff autumn but it will outperform during the winter. It will be the next super investment bargain. Stocks were the super bargain of the Kondratieff autumn—they appreciated 1400%.

Although I am not going to argue the cause of inflation versus deflation in this letter, I am convinced that we face severe deflation during this Kondratieff winter because debt is deflationary. Gold performs very well in both these financial extremes, but it performs better during deflation. Let us examine the reasons why gold prices are likely to rise to undreamed of levels during this Kondratieff winter:

1. **Extreme Financial Distress:** The ramifications of the greatest debt bubble in history have already been outlined. The Kondratieff winter cleanses the economy of debt. This time, it will be very painful because the debt structure is so enormous. The pain will be compounded by a huge and unstable bank derivative exposure, the massive short position in gold and the probable collapse of the world monetary system.
2. **Suppressed Gold Price:** The price of gold has been constrained by governments, principally the US. We know this because, after Alan Greenspan examined the Long Term Capital Management disaster, he said, “Nor can private counterparts restrict supplies of gold, another commodity whose derivatives are often traded over-the-counter, where central banks stand ready to lease gold in increasing supplies should the price rise.”⁵⁵ Collusion to suppress the price of gold was confirmed when Eddy George, Governor of The Bank of England, is reputed to have told Nicholas J. Morrell, Chief Executive of Lonmin PLC, “We looked into the abyss if the price of gold rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under control, but we have now succeeded. The US Fed was very active in getting the gold price down. So was the U.K.”⁵⁶

They may think that they have succeeded, but for how long? They are now scraping the bottom of the barrel in finding accomplices to assist them in their scheming. Kuwait was induced to give up 70,000 tons of gold and Lebanon has been ‘encouraged’ to hand over its comparatively small gold holdings.⁵⁷ The pity is that these and other countries which have leased gold are unlikely to ever get it back. The gold has been sold. The current estimated gold short position is somewhere is between 8000 tons and 17000 tons. Since annual production is only 2500 tons, it will be impossible to cover this short position. It cannot be long before a rising gold price reveals the enormity of the short position. No amount of underhanded government intervention in the gold market will help then.

The rising gold price will reveal the depth of the ‘abyss’ and will certainly lead to the disasters which Mr. Greenspan and Mr. George visualized in 1998. It will bankrupt many hedge funds and imperil the banking system. It will lead to a run on the currencies of those countries who have depleted their gold reserves in their fight to suppress its price. And, it will lead to a flight to gold, just as the fear of

the collapse of the US banking system did in 1931.

3. **A Floating Gold Price:** The price of gold in US dollars was fixed at \$20.67 per ounce until 1933, when it was increased to \$35 an ounce by President Roosevelt, co-incident with a dollar devaluation of 69%. If the price of gold had been floating as it is now, there is no telling how high it might have gone, given the huge demand at the time. Now that the price floats it will go considerably higher, pulling the value of gold stocks with it. An approximate rule of thumb is that stocks appreciate three times the increase in the price of gold.

The Gold Price In This Kondratieff Winter

In their book, *The Great Reckoning*, James Davidson and Lord William Rees-Mogg wrote, "Five great credit cycles have come to an end over the past three centuries, the last in 1929. On average, the price of gold in real terms (adjusted for inflation) within four years of the end of the cycle to exceed its high of a decade earlier (inflation peak) by 8.5% in real terms. This implies that the inflation (or deflation) adjusted price of gold would exceed \$925 in 1980 dollars. That comes to about \$1600 in December 1990 dollars. (Book was published in 1991). There are only a few ways that such a tremendous leap in the price of gold could occur:

- (a) gold could be re-monetized at a high price;
- (b) inflation would have to sky rocket; or
- (c) deflation would raise the value of each 1990 dollar to about \$2.45 (\$3.83, in 2001).

A tremendous monetary disturbance lies in store if history repeats itself."⁵⁸ The evidence now suggests that history is indeed repeating itself. The \$1600 price in 1990 translates to a gold price of **\$2500** in the present.

3rd Kondratieff Cycle			
Stocks DJIA		Homestake/Gold	
Start of Autumn	63.90	Start of Winter	\$78
End of Autumn	381.19	Winter High	\$528
Gain	496%	Gain	576%
4th Kondratieff Cycle			
Start of Autumn	777	Start of Winter	\$250
End of Autumn	11725	Winter High (Projected)	\$3725
Gain	1410%	Gain (Projected)	1490% (1)

To provide consistency to our projections for the stock market decline during the Kondratieff Winter, I have compared the percentage increase of stocks in the last two Kondratieff Autumns versus gold in the 3rd Kondratieff Winter and, on this basis, projected gold's price through the 4th Winter.

- (1) – In the 3rd Kondratieff Winter, the price of Homestake outperformed the price of all the shares during the previous Kondratieff Autumn by 80%. The 4th Winter projection is based on a similar 80% outperformance of the 1410% increase registered by stocks in the 4th Kondratieff Autumn.
In the 3rd Winter, Homestake was used as a proxy for gold, because the price of gold was fixed between \$20.67 and \$35

How To Buy Gold

The Kondratieff winter is the time to own gold. Although I will not recommend any gold shares in this newsletter, I would caution against the purchase of gold companies whose future production is heavily hedged. The lessons of Cambior and Ashanti should serve as a stark reminder of the perils of hedging when the price of gold rises. The coming increase

in the price of the metal will be swift and dramatic and will jeopardize the future of hedged companies who will have to buy back their positions from current production. That will not be possible.

I have a preference for junior gold mining companies which are not in production but have a discovery. They are like a bank; they have the gold and you as the shareholder have a partial claim against that gold, which is still stored in the ground. There are several companies like this just waiting for a higher gold price so they can move the discovery to production. The chances are that these companies will not have long to wait. I also like junior exploration companies that have excellent exploration potential based upon the right geological signatures and/or with ground from which there has been significant past production.

When the price of gold moves significantly higher, the best leverage to the price of gold will be found in good quality, junior exploration companies. (Please note, investment in gold exploration companies is a high risk/high reward venture. Investment in these companies is not recommended for those with a low risk tolerance).

Over the past few years, companies producing gold have essentially reduced their reserves and swapped their gold for over-inflated paper dollars, with little or no profit to show for their efforts. Smaller companies with deteriorating reserves are, therefore, not recommended.

For conservative investors, there are some excellent gold company convertible debentures, which pay interest and are convertible into the common shares at higher prices. One company pays dividends in constant fractional values of either gold or silver on its specified preferred share issues. The beauty of this investment is that investors directly participate in any increase in the value of gold or silver through the dividend.

Good management is a key ingredient to any successful gold company. This is particularly true of junior mining companies. Before you make an investment, thoroughly investigate management.

You can purchase bullion through most large banks. Canadian investors can purchase Maple Leaf coins directly from a Canadian Bank. These coins are sold at a slight premium over the current gold price (Priced in US \$s and then converted to Canadian \$s) and are available in fractions of an ounce, up to 1 ounce. I frequent a local dealer in Vancouver who offers very competitive prices, not only for gold, but currencies as well.

“Perhaps the only plus at present is the price of gold. While it causes problems for gold producers, it is at these price levels, *providing you take delivery*, a very attractive asset and a very, very attractive alternative to paper money. Gold cannot be made. It’s that simple.”⁵⁹

Challenge to America’s Mythical Wealth

American officials, led by the Federal Reserve, will fight hard to preserve the myth of the financial colossus. The fight is being fought on many fronts such as the economy, gold and the stock market.

In 1980, Congress passed the Monetary Control Act, which effectively placed the entire US money and banking system in the hands of the Federal Reserve. This powerful piece of legislation passed the responsibility for the US monetary and financial system from elected representatives to an autonomous institution controlled by the banks. Thomas Jefferson said that ‘banks are more dangerous than standing armies.’ He argued that freedom and human dignity were enhanced by the diffusion of wealth and power, but curtailed and ultimately destroyed by its concentration. Nowhere is this more possible than

in the banking system. It is an inescapable lesson of history that power and prestige are always abused.

Some of the powers passed on to the Federal Reserve Chairman through this act, included the use of any financial asset acquired in open market operations to collateralize new Federal Reserve currency and credit and the option to bail out any bankrupt institution. This means that the Federal Reserve can intervene in any financial market and banks will be saved no matter what. This monstrous piece of legislation explains Alan Greenspan's admitted intervention in the gold market to keep its price down. It also infers that the Federal Reserve will intervene in the stock market to avert a panic. Beyond this subterfuge intervention, why would not the US government issue bogus economic statistics so as to imply that things are a lot better than they really are? Like the latest US growth figures recently released by the US government that showed first quarter growth of 2% versus 1% in the final quarter of 2000.

As you have read, the Federal Reserve acted with alacrity in 1929, in an effort to diffuse the panic. Even before the crash in stock prices before the end of October 1929, the major US banks led by J.P. Morgan purchased stocks in the market in an effort to prop up prices. It was all to no avail and so will be this time, too, because when the time cycle is up, nobody and no institution 'can stem the tide.' "It is natural law. Action equals reaction in the opposite direction. We see it in the ebb and flow of the tide and we know that from the full bloom of summer follows the dead leaves of winter."⁶⁰ Does this seem familiar? "During 1927, 1928 and the first half of 1929, there was much talk of the new era in the stock market and the great value of the Federal Reserve Bank in preventing panics."⁶¹

"Central banks, and particularly the US Federal Reserve, are deploying their heavy artillery in the battle against a systemic collapse. This has been their primary concern for at least seven years. Their immediate objectives are to prevent the private sector bond market from closing its doors to new or refinancing borrowers and to forestall a technical break in the Dow Jones Industrials. Keeping the bond markets open is absolutely vital at a time when corporate profitability is on the ropes. Keeping the index on an even keel is essential to protect the wealth of the household sector and to maintain the expectation of future gains. For as long as these objectives can be achieved, the value of the US dollar can also be stabilized in relation to other currencies, despite the extraordinary imbalances in external trade."⁶²

Summary

"The Virtue of Long Wave Analysis is that it gives one both a timetable and a map of historic events."⁶³ The timetable projects the arrival of the Kondratieff Winter. In this newsletter, I have chronicled the historic events that support this hypothesis.

Since 1949 we have experienced the growth phase of the cycle — more than 50 years of an expanding economy and wealth creation. This has given most people comfort in the belief that the status quo will be maintained. It also makes it difficult to anticipate the severity of the coming contraction. The change from Kondratieff autumn to winter is the most traumatic economic experience of a lifetime, and that change is now upon us.

The Chinese characters which signify crisis, read danger and opportunity. The crisis is here, it is a crisis in confidence. With each drop in stock prices, each announced lay-off and each earnings warning, collective confidence falls another notch. This crisis in confidence feeds upon itself. We have reached the danger stage, when the growing lack of confidence can, and I believe will, bring everything down. It is likely that the stock market

will crash first, which will be the final straw to break the back of the economy. It will then be apparent that the Kondratieff winter is underway. The once in a lifetime opportunity which awaits all investors is the chance to undertake a complete about-turn in investment strategy. That is, a chance to sell paper assets at near record prices and to buy gold at close to record low prices, in real terms (adjusted for inflation).

You have been presented a series of facts which show the financial similarities between 1920-1930 and 1980-the present. You can choose to dismiss the compelling evidence that I have chronicled for you, as merely circumstantial. You can choose to accept the soothing words of leaders. You can choose the comfort and support of the crowd and not change anything. Or you can choose to take action. What does it cost you to be out of stocks and into Treasury Bills at this time? What does it cost you to place a portion of your investment money in gold or gold shares? Have you been so conditioned by the action of the gold price over the past 21 years that you believe that it will continue to go down? How could it? The price of any commodity eventually gravitates to the cost of its production. The cost to produce an ounce of gold is significantly higher than its present price. But gold is not a mere commodity, it is money; it has been money for more than

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Centerfold

1. The Kondratieff Wave Chart, June 1789-January 2001.
This chart shows how interest rates, prices, stocks and gold (Homestake) move during the Kondratieff cycles. The peaks and valleys in these charts indicate changes from one Kondratieff season to the next.

End of winter/ start of spring

Interest rates and prices are close to a low for the entire Kondratieff cycle. Stocks prices are above their bear market bottoms. But investor sentiment is very cautious in spite of excellent corporate earnings.

Best investments for the Kondratieff spring are stocks and real estate.

Worst investments are bonds and stocks.

End of spring / start of summer

Stocks peak and prices and interest rates start to accelerate higher

Best investments for the Kondratieff summer are commodities, gold and real estate.

Worst investments are bonds and stocks.

End of summer/start of autumn

Prices and interest rates peak. Stocks in a bear market. Severe economic recession.

Best investments for the Kondratieff autumn are stocks, bonds and real estate.

Worst investment is gold.

End of autumn/start of winter.

Stocks rise to a frenzied speculative peak. This stock price peak is a definitive sign that the Kondratieff winter has begun.

Best investments for the Kondratieff winter are gold and cash.

Worst investments are stocks, real estate, commodities and bonds, until the peak of the credit crunch (interest rate spike), then bonds are a good winter investment.

2. The Kondratieff Cycle and the cycles contained within it.

Note that most cycles peak at the end of the autumn, including the confidence cycle, because “people are most credulous when they are most happy.” Walter Bagehot, and they are most happy when they are making lots of money, which they are doing into autumn’s end.

See how savings are built up in winter only to be rundown through spring, summer and particularly in autumn.

Note that interest rates come down through the autumn and then spike into early winter as the credit crunch takes hold.

Note how the cycle of inflation/deflation moves through the entire Kondratieff cycle. Spring starts with little or no inflation. Inflation then gathers momentum into the summer and ends summer in a blow-off peak. Autumn is the season of disinflation (moderating inflation). The cycle completes in winter in serious deflation (falling prices).

3. The Dow Jones Industrials and the price of gold.

This is simply one of the best charts that I know of, which shows the relative values between paper assets (stocks) and gold. It is calculated by simply dividing the level of the Dow Jones Industrial Average by the price of gold. At the peaks, like the present, paper is expensive relative to gold. At the valley bottoms gold is expensive and paper is cheap. Paper is currently priced at record prices relative to gold. Which do you think is the better bargain?

Since the two prices are juxtaposed at their most extreme levels, it is probable that they will move to similar extremes on the downside, like 0.50?

Note that paper performs best in the Kondratieff spring and autumn, whereas gold outperforms in summer and winter.

***If you can make one
heap of all your
winnings
And risk it on one
turn of pitch-and-
toss,
And lose, and start
again at your
beginnings
And never breathe a
word about your loss;
If you can force your
heart and nerve and
sinew
To serve your turn
long after they are
gone,
And so hold on when
there is nothing in
you
Except the will which
says to them “Hold
on!”***

***Rudyard Kipling
IF***

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