U.S. Tangible Investment Corporation

Special Report
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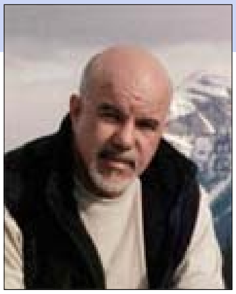
Rare Coin Trends and Market Report

I Have Met the Enemy, and it is Gold



Burnett Marus, RFC

Interesting title for my column considering the topic of the previous issue of the RCT &MR. Why did I use this headline? Well, I was asked by many of you about the comments made by Ned Schmidt, CFA, CEBS in the past issue of this newsletter. Was I surprised by his comments? Did I think there was a conspiracy surrounding the gold market? How come more information isn't provided on the gold market (or the rare coin market)? Good questions. I was thinking about these questions while I was reading the Investor's Business Daily and ran across an article about gold bullion titled "Stocks, Not Gold, Give Best Gains". It was a very negative article about gold bullion and gold stocks with the conclusion that regardless of the high returns presently enjoyed by this sector, stocks are the best place to be. As I put the paper down, ready to fire off a pointed letter to the editor about the inane arguments that were proffered by the writer, it hit me. What was I thinking? I was reading the Investor's Business Daily. What else would they write? They are not going to say that most stocks suck right now, that P/E ratios are still out of whack and that the market is still overvalued in many sectors. This is a major publication that makes it's bread and butter touting the way to achieve the American Dream is through owning stocks. That's what their readership wants to read. That's what their advertisers want to promote.

Let me clarify one thing at this point. I am not a "gold bug", I am not blinded by the luster of gold bullion or gold stocks. All investment mediums have merit, the key is the suitability of the investment for the client. Bonds are good for some portfolios, not suitable for others. The same is true for stocks, limited partnerships and rare coins. I am not a hard asset "guru". Those guys are right two years out of ten when the markets behave as they do now. I am not a stock maven either. They are right eight years out of ten, then lose all their profits (and in some cases lots of principal) in the two years when the hard asset gurus are saying "I told you so". Simply, the position that I have advocated was one of diversification. The quote "why can't we all just get along?" comes to mind. The reason gold will not be embraced by the Main Street financial media is because gold is the enemy. A strong gold market is not the friend of Wall Street. If gold is strong and prices rise ...stocks suffer, Wall Street suffers.

This observation is not "sour grapes" but simply fact. Gold advocates have always been on the fringe of the markets. The terms, "gold bugs" and "doom and gloomers" have been the tags hung on these individuals. It is a popular thought that the price of gold bullion has been effectively manipulated for the past several years by the central banks, Goldman Sachs and major wire houses. The Gold Anti-Trust Action Committee (GATA) has fought the heroic fight bringing evidence to light on this topic. Whatever you believe, it is interesting to note that gold has traded within a narrow $5 trading range for the past five years with no seeming connection to the rest of the world's economy. When gold begins to rise, central banks or as in the most recent example "anonymous investment funds" have a major sell-off of gold to reduce the price. The Bank of England announces six months prior to the sale, that in order to raise capital, they will sell about 50% of their gold reserve. A strange way to raise capital. Reduce the price of the asset prior to selling. Is GATA right? Is the gold game rigged? If it is, nobody seems to care. The Secretary of the Treasury could admit on national television that in order to stabilize the U.S. equity markets (where the people have most of their money) the gold bullion market (where people have the least of their money) has been manipulated to stay low. The response would be a hearty thanks from the American public. Tough beans for the mining firms and the all the "gold bugs".

My point to be made is very blunt. Nobody cares. The Wall Street crowd does not care about gold. They don't sell it. At present, the American public doesn't care about gold. They don't own it. If you are a financial planner, take a quick poll among your clients. How many own gold bullion or any hard assets for that matter? Check with your peers. How many offer hard assets? The Broker Dealer community promotes and sells mutual funds and insurance. The majority of compliance departments have no understanding of hard asset investments. As a result, they do not "approve" hard assets (unless, of course, it is in a mutual fund). The major financial planning organizations like the FPA, NAPFA, NAIFA are sales conduits for the mutual fund and insurance industry. When was the last time the FPA offered a program that included any hard assets or any speakers that specialized in this area. Diversification is no longer a major issue for these organizations. The fact of the matter is, these organizations feel that if over 95% of market activity is in mutual funds and insurance, it might as well be 100%. The mutual funds and insurance companies have the "deep pockets" to fund the annual conventions and Broker Dealer meetings. The core of client investment holdings are in these areas, the focus of all training and licensing of representatives are in these areas. The result is a logical "keep it simple" philosophy for the financial planning industry. This is NOT a bad thing. It certainly narrows the options for the investor but if it is the intention to strictly focus on equities, it works well. This philosophy was tremendously successful during the 1993 – 1999 period. Stocks and mutual funds were the investment area that provided the dramatic growth to investors during that period. However, the financial planning industry became a victim of their own success.

With the focus on investments narrowed only to growth mutual funds (diversification was considered to be owning more than one growth mutual fund) financial planners were vulnerable to market corrections. When the corrections came in 2000-2001, the negative effect on portfolios due to the lack of true asset class diversification became painfully evident. With client portfolios positioned 100% in the growth equity markets, what went up...came down.

Would diversification in hard assets have helped? Yes. It definitely would have helped clients portfolios...if the financial planning industry was willing to provide the options. Unfortunately it seems that the saying "live by the sword, die by the sword" has been replaced by "live by stocks, die by stocks". There are options. Take them...seriously.

(Editors Note: The article on the reverse side was published one week after this column was written.)

U.S.Tangible Investment CORPORATION

100 Highland Park Village
Dallas, TX 75205

800-742-6000 U.S.
800-872-6467 Canada
214-528-3500 Local

www.ustic.com

Royal Bank of Canada Investment Management, Inc. Publishes Stunning Report on Gold Manipulation

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By Andrew Willis and Caroline Alphonso

One of Canada's most successful money managers, Royal Bank of Canada's John Embry, has become the poster boy for gold bugs after endorsing the concept of a long-term central bank conspiracy to depress bullion prices.

In an eight-page report published on bank letterhead, and distributed yesterday by U.S. conspiracy theorists, Mr. Embry set out the case of a further rise in gold prices, a prediction made in part on "increasing evidence of unsustainable gold price manipulation."

The successful gold fund manager said "statistics suggest that real manipulation" of bullion prices began in 1995. Mr. Embry wrote: "Those with a vested interest in containing the price of gold -- central banks, bullion banks, heavily hedged gold companies -- will not die easily, but the tide is moving strongly against them."

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Like most central banks, the Bank of Canada has been a consistent seller of gold in the past decade. Bank of Nova Scotia is among the world's largest bullion banks, and Barrick Gold Corp. is the world's largest hedger.

Mark Arthur, head of Royal Bank Investment Management Inc., said Mr. Embry's report was done for internal use and "in no way reflects the views of Royal Bank."

Mr. Arthur described the paper as "a collection of various arguments for gold stocks" that was part of a larger discussion on asset allocation at the money manager.

Mr. Embry runs the Royal Precious Metals fund, which boasts $329-million in assets and a stellar one-year return of 156 per cent, compared with a 90-per-cent average performance by its peers. He was not available yesterday. The eight-year RBC veteran also helps to manage four other large funds. And as chairman of the bank's Canadian equity and stock selection committee, Mr. Embry sets strategy for the $38-billion mutual fund family.

The theories endorsed by Mr. Embry have been pushed for years by groups such as Gold Anti-Trust Action Committee Inc. (GATA) of Dallas. The premise is that central banks -- mainly the U.S. Federal Reserve Board -- stamp out any surge in gold prices to preserve confidence in the U.S. dollar. The idea is that rising gold prices mean a lack of confidence in the greenback, which they believe is the engine of U.S. economic imperialism.

Yesterday, GATA members trumpeted Mr. Embry's report as validation of their claims, and said it showed that mainstream organizations are starting to acknowledge that central banks have rigged gold sales to depress the price of bullion.

"The establishment in the gold world is coming around to our central premise: That central banks and particularly the U.S. Treasury Department have been colluding surreptitiously and desperately to suppress the gold price and manipulate the gold market," Chris Powell, secretary and treasurer of GATA, told his members yesterday.

"Royal Bank has written a report that COMPLETELY ENDORSES all the GOLD PRICE-FIXING allegations of GATA," GATA member Ed Steers said in an e-mail. "I cannot overemphasize how huge a story this is!!!!"

GATA chairman Bill Murphy said RBC used information that his organization has been collecting for the past three years.

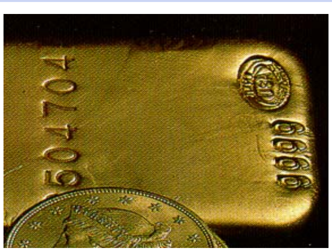
"As far as we're concerned, it's tremendous credibility," Mr. Murphy said in an interview. "It's fabulous. It explains the gold industry in a way that you don't hear from most established organizations."

When told that the views of Mr. Embry don't necessarily reflect that of RBC, Mr. Murphy said: "When you have a report, you can be sure that the report can't go out without the approval of Royal Bank itself. This is one of the most important reports ever written on the gold market. They understand the dynamics being played out."

Mr. Embry's report, he said, gives "credibility" to gold bugs like himself, who believe the price of gold has been manipulated. Mr. Murphy added: "Most of the gold world thought we were idiots. It turns out we're right."

Gold changed hands yesterday at $324.60 (U.S.) an ounce, up $1.40 cents on the day. The price has risen steadily from around $260 a year ago, after spending the better part of four years below $30.

Read the Complete RBC Investment Management Report



The above article reprinted from the Globe and Mail, seems to dismiss the report from RBC Investment Management as a tool for “conspiracy advocates”. The terms “gold bugs” and “conspiracy” are prevalent in the article. Missing are pertinent sections of the report which have caused the Royal Bank to send out immediate denials that the report reflects the view of the bank. You can read the report and decide for yourself. The complete report from RBC Investment Management, Inc. was posted on the GATA website, www.LeMetropoleCafe.com. Copies of the report can be obtained by contacting U.S. Tangible Investment Corporation at 800-742-6000 in the US or 800-872-6467 in Canada. Ask for the “RBC Gold Report”.