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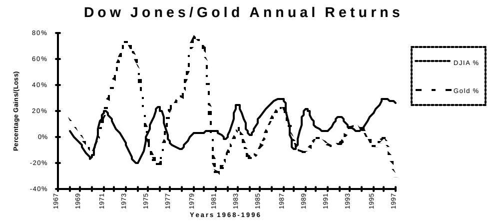
Gold



& Technology Stocks

Volume 22 No. 15 ***(Now in our 22nd Year)*** **Dec. 15, 2003**

Blanchard & Company's Don Doyle Explains
Blanchard vs. Barrick & J.P. Morgan

Blanchard & Company CEO Donald W. Doyle

One of the most important developments related to the gold bull market that seldom is mentioned in the mainstream media has been litigation aimed at stopping the manipulation of the gold markets by the ruling elite.

There have been two such lawsuits that we are aware of that have tried to reverse acts from the ruling elite to trash the price of gold. We have talked much in the past about the first of these lawsuits, that being the one filed by the courageous Harvard Law graduate and accomplished trial lawyer, Reginald Howe. Talk about a David-and-Goliath story! Reginald Howe sued the U.S. Treasury, the Federal Reserve, the New York Federal Reserve, the BIS, Goldman Sachs, J.P. Morgan, Chase Manhattan (prior to the merger with J.P. Morgan), CitiGroup, and Deutsche Bank. The judge in that Boston Federal Court dismissed the suit, not because it lacked merit, but rather because other entities that stood to lose more than Reggie from lower gold prices failed to charge these ruling institutions with wrongdoing. If Newmont Mining or GoldCorp had brought suit against these defendants, the judge would have had to find another reason to dismiss the case, or perhaps he would have permitted this case to go to trial so that the eyes of America may have been opened to how the Clinton Strong Dollar Policy was in fact instituted.

I have not talked much about the second of these anti-gold conspiracy lawsuits, but I think it is high time all gold investors begin paying attention to *Blanchard vs. Barrick & J.P. Morgan* because unlike the Howe case, which was dismissed, the Blanchard case is now in discovery and apparently headed to trial. Why should that matter to gold investors now that the price of gold is on the rise? I believe the outcome of this case is incredibly important because: (1) It will help establish how the price of gold fell to such pitifully low levels; (2) It will help explain why the dollar became such a falsely strong currency during the 1990s and how that in turn enabled the market excesses of the 1990's to occur.; and (3) It will help shine the light of day on the evils of fiat money and how it can lead to the abuse of power in the hands of the ruling elite and those who create fiat money out of thin air.

The fact that the Blanchard case is going to trial therefore gives your editor hope that some semblance of the rule of law rather than the rule of Wall Street's rich and powerful will be retained in America. Because of the importance of this case and what it means not only to the gold markets, but also to America in general, I set aside a couple of other interview possibilities I had for this month, in favor of an interview with **Donald W. Doyle, CEO of Blanchard & Company Inc**., when that interview became possible.

With respect to Reginald Howe, Mr. Donald, has the utmost respect for his heroic efforts. In a piece posted at www.miningweb.com, Mr. Doyle said the following about Reginald Howe:

"I believe that everyone who is interested in gold owes a debt of gratitude to Mr. Howe—one that I have acknowledged numerous times in writing. I have never met or spoken to Mr. Howe, but I admire his intelligence and tenacity and sympathy with the brutally difficult job he has had in bringing important facts to light."

In addition to being Blanchard's CEO, Don Doyle is majority shareholder of Blanchard & Company, Inc., which is the largest dealer in rare coins and the second largest retail dealer in precious metals in the United States. He was CEO from June 30, 1988, until his acquisition of the company on October 5, 1991, from Allegiance Capital Partners, an investment partnership whose investing partner was General Electric Capital Corporation.

From August 1993 through August 1995, Mr. Doyle served as the chairman of the Industry Council for Tangible Assets, an organization consisting of participants in the precious metals industry including banks, mining companies, brokerage firms, wholesale and retail dealers, and industry groups such as the World Gold Council and the Platinum Guild International, and has been president of CERT, Coalition for Equitable Regulation and Taxation, since its inception (1966).

Since 1975, Mr. Doyle has been founder and director of Associated Commodity Specialists, Ltd., and Commodity Specialists GMbh, which manage foreign investments in the U.S. commodity markets. Mr. Doyle has also been a general partner in Newport Enterprises, a New Orleans based real estate partnership.

Don Doyle served in the United States Marine Corps from January 1967 through June 1970 and left with the rank of Captain. He served two tours of duty in Viet Nam and received decorations from the U.S. and South Vietnamese governments. He attended the University of Notre Dame and Tulane University Law School, from which he received a J.D. degree with honors in 1966. He is a member of the American, Louisiana, and New Orleans Bar Associations, is former chairman of the Viet Nam Veterans Leadership Program, co-chairman of the Viet Nam Veterans Memorial Fund, and is active in the Viet Nam Veterans Jobs for Vets program and related counseling and outreach programs.

I won't even pretend to be an impartial observer with respect to the Blanchard case or the Howe case. I want them to win because I believe their charges are true and that the actions of the defendants have been hurtful to average, hard-working Americans and many poverty-stricken people in gold mining countries as well. So, to the extent the Blanchard trial demonstrates wrongdoing by powerful ruling elite J.P. Morgan and Barrick Gold, I relish the day Blanchard is declared a victor. I am rooting for them to prevail in this litigation because I believe this to be a very, very important test of whether American citizens are granted the right to protect themselves against the rich and powerful. Such people are those who in this case would collude to manipulate the price of gold to lower and lower levels, and thus use their power to further disable average Americans from protecting themselves against the ravages of a debased currency, which of course banking institutions like J.P. Morgan are guilty of creating in the first place.

We hope you enjoy the following interview with CEO Donald W. Doyle, which was taped on December 5, 2003. He is very serious about this lawsuit, and it is certainly encouraging to learn that the judge in this case is standing up for the rights of common ordinary folks. At one time, when the Constitution was created, our nation was supposed to be a nation of laws, not men. In a time when economic fascism (corporations in bed with government) in America is rapidly on the rise, the outcome of the Blanchard case may not only give us a hint at where the price of gold is headed, but also tell us whether freedom in America remains a reality or simply an empty slogan used to justify sending young Americans into battle.

Taylor: I would like to ask you to provide an overview of the lawsuit Blanchard and Company and the other plaintiffs in the case are bringing against Barrick Gold Corporation and J.P. Morgan Chase & Co. And perhaps you could explain briefly who the other plaintiffs are and why they have joined Blanchard and Company in this litigation.

Doyle: Taking the tail end of the question first, Mr. Davies is an investor in gold. Mr. Holmes is a partner in a gold mining enterprise. They have joined with Blanchard because the manipulation of the price of gold by Barrick and J.P. Morgan has damaged them and has damaged similarly situated investors and gold producers.

The lawsuit itself alleges that Barrick and J.P. Morgan have violated United States' antitrust laws by unlawfully combining to manipulate the price of gold and to monopolize the market in gold. The suit seeks an injunction and damages pursuant to the Clayton Act, the Sherman Act, and the Louisiana Unfair Trade Practices and Consumer Protection Act.

However, it would appear that Barrick has already voluntarily taken the very steps that Blanchard has been seeking in the form of injunctive relief. Barrick just announced that it is changing its long-established policy and will no longer enter into the short sales of gold that it has used to manipulate the gold price. The company has pledged to reduce and ultimately eliminate those short sales that it now has. As a result of Barrick's capitulation, the principal issue now before the Court is the damage that has been inflicted upon investors, dealers and other gold producers. That issue is still of tremendous importance. It will establish a precedent that can be used to recover damages for Blanchard's clients, for other gold dealers and for other gold producers.

Taylor: Could you explain the relationship between Barrick Gold and J.P. Morgan and when did these two companies enter into that relationship?

Doyle: The beginning of the relationship was in 1988. In 1988, they entered into what was known as a "spot deferred sales contract."

Taylor: Was that a new concept, a new trade?

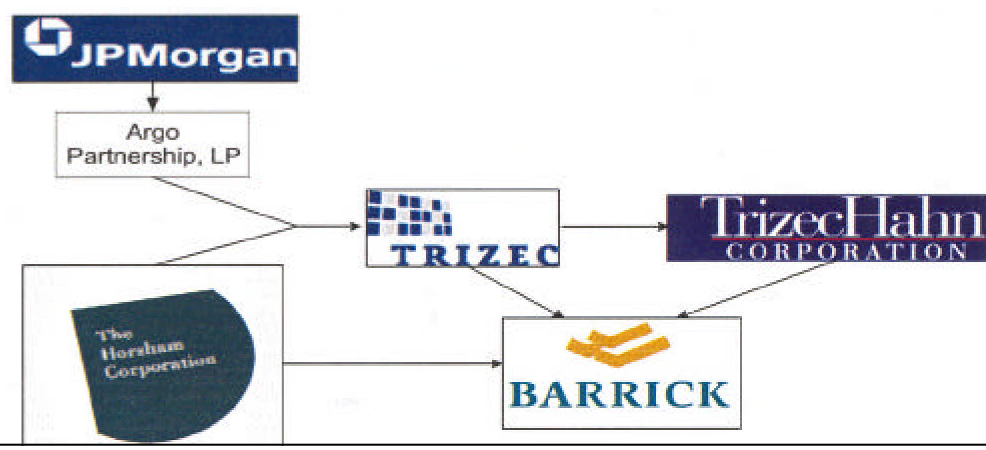
Doyle: I don't believe the concept was new. I believe the extent to which it was carried was. And Barrick still claims to this day that they are the only party that has the type of transaction that they have with J.P. Morgan.

Taylor: I want to talk a bit more later on about the specifics of the "spot deferred" contract, but I would like to stay focused on the relationship with J.P. Morgan for the moment. Could you talk a bit more about how that relationship worked?

Doyle: Barrick and J.P. Morgan have a contractual relationship through the spot deferred sales contracts and the master trading agreements that govern the operation of those spot deferred contracts.

During the course of the trial of the motions to dismiss that were filed by J.P. Morgan, they claimed that Blanchard had failed to allege a viable economic motive for them to participate in the conspiracy with Barrick. What Blanchard discovered and included in our later filings was that, from 1996 though 2001, J.P. Morgan had an ownership interest in Barrick! To give you a bit of background – it will give you whiplash following this, but here it is.

The controlling shareholder of Barrick in 1994 was Horsham. In 1994, Horsham joined with Argo Partnership, LP, which was an investment partnership in which J.P. Morgan Securities owned a partnership interest, and acquired a controlling interest in Trizec Corporation. In 1996, the remaining equity in Trizec Corp was acquired by Horsham and the interests of Horsham and Argo were merged to form TrizecHahn Corporation, which became the controlling shareholder of Barrick.



Taylor: So J.P. Morgan then actually had a controlling interest in Barrick?

Doyle: TrizecHahn did. And J.P. Morgan – through Argo – became a significant beneficial owner in Trizec Hahn. At the same time, the Managing Director of J.P. Morgan Capital Corp became a director of TrizecHahn and also served as a member of its audit and executive committees. Securities and Exchange Commission filings show that the ownership in Argo were held by J.P. Morgan Capital Corp and J.P. Morgan Securities Inc.

In its 1999 Annual Report, TrizecHahn said that it realized $1.3 billion or 1,600% on its original investment in Barrick!

Taylor: So can you back into what J.P. Morgan's share of those profits were?

Doyle: I can't. We should be able to after we get some discovery. All we have to work with now are their SEC filings.

Taylor: You mentioned the Board of Directors. Did you say that J.P. Morgan had a director on the board of Barrick?

Doyle: No, on TrizecHahn's Board. The Managing Director of J.P. Morgan Capital Corp. was appointed to the Board of Directors of TrizecHahn, which in turn was said to be the controlling shareholder of Barrick.

Taylor: So there was no one directly from J.P. Morgan who was on the board of Barrick. There was this indirect representation through TrizecHahn that controlled Barrick. But speaking of the Board of Directors of Barrick, that board has been comprised of a very colorful cast of characters.. Could you tell our readers who some of them were and perhaps speculate what their roles with Barrick may have been?

Doyle: Barrick actually has two boards - its Board of Directors and its "International Advisory Board." Brian Mulroney, the former Prime Minister of Canada, is a member of Barrick's Board of Directors and is the Chairman of Barrick's International Advisory Board. Former President George Bush served as Honorary Senior Advisor to Barrick's International Advisory Board. Members of that Board have included Karl Otto Pohl, former President of the German central bank; Senator Howard H. Baker, a former Majority Leader of the U.S. Senate and White House Chief of Staff; Senator William Cohen, a former U.S. Secretary of Defense; Andrew Young, a former U.S. Ambassador to the United Nations and Mayor of Atlanta; and Vernon Jordan, a former President of the Urban League, NAACP Field Secretary and a former Senior Partner in Akin, Gump, Strauss and Feld.

Taylor: Wasn't there a CIA connection with Barrick?

Doyle: The CIA connection was actually through Barrick's initial investors. At its inception, Barrick's principal investors were Saudi Arabians who had close ties to the Saudi Intelligence Services, or to the CIA, or to both. Those Saudi Investors were Sheikh Kamal Adham, the head of Saudi Intelligent Services at the same time that President Bush was head of the CIA; Adnan Khashoggi, the first of the Saudi investors in Barrick; and Prince Nawaf bin Abdul Aziz, one of the biggest of the initial shareholders in Barrick and now head of Saudi Intelligence Services. Sheikh Adham was the CIA's principal liaison to the Middle East and was so closely tied to the CIA that he even had an agency codename: "Tumbleweed."

Taylor: What do these colorful folks know about the mining industry? I'm sure Barrick has had some technically competent folks on their board who know the mining industry. But many of these people of influence in the company appear not to have any substantial knowledge of the mining industry. Herbert Hoover was a mining engineer so his addition to a mining company board might make sense. But George Bush? Brian Mulroney?

Doyle: We failed to find any connection that the Advisory Board members had with mining, mineral development or geological engineering.

Taylor: Could you explain how Barrick might manipulate the price of gold higher and why would they do so? Also, could you explain what interest J.P. Morgan might have had in seeing higher gold prices from time to time, if indeed they did benefit from that?

Doyle: Well lets go back to what the "spot deferred" contract was.

Taylor: O.K. Lets get into that now.

Doyle: A normal short sale would be a lousy device to manipulate a market because a short sale is inherently speculative and dangerous. If you sell something short, the upside potential of your investment is limited but your downside is unlimited.

Taylor: Right. Your upside is limited because the price of an item can't go below zero but in theory it can rise to infinity.

Doyle: Exactly. However, Barrick's spot deferred sales contracts are super-short sales of gold – short sales on steroids. The gold used to make the short sale is borrowed by J.P. Morgan for Barrick's account. The borrowed gold is immediately sold into the market and the dollar proceeds from the sale of the gold are invested in money market instruments that produce a higher rate of return than the gold lease rate. From 1996 through 2001, J.P. Morgan loaned gold to Barrick at a lease rate of approximately 1.5%. J.P. Morgan then reinvested the proceeds at a rate of interest of approximately 6.5%. The 5% interest premium, or "contango" was profit to Barrick. If the price of gold fell, Barrick realized additional profit. A sweet deal. But what made the spot-deferred sales contracts truly extraordinary was the fact that, with most of the contracts, Barrick had 15 years to repay the borrowed gold; had no margin calls at any gold price; and had "evergreen" provisions that effectively restarted the 15-year term each year.

Taylor: Our subscribers are familiar with what is known as the gold-carry trade but that normally didn't involve long-term loans and it normally would involve margin payment requirements if the gold price began to rise. Is this the only case you know of which involved such long term loans and no margin?

Doyle: It's the only one we have been able to find. Barrick itself says its spot deferred contracts are unique. What is most interesting is that these began back in 1988 when Barrick described itself as a smaller, higher cost producer with a weak balance sheet. So you have to ask yourself the question, why would someone be willing to lend gold with no margin calls for ten years or more if he didn't have the absolute certainty that it is going to be repaid? We don't know what other kinds of credit enhancement were provided. We don't know what the reasons were for J.P. Morgan extending such generous terms.

Taylor: Right. Why would J.P. Morgan make such seeming extraordinarily reckless loans to such a non-credit worthy borrower?

Doyle: J.P. Morgan does say in their answer to our complaint that they have legitimate business justifications for their relationship with Barrick but they don't say what it is. We don't know of any legitimate banking justifications for the transactions, certainly not at their inception.

Taylor: How did J.P. Morgan's spot-deferred contracts with Barrick enable it to manipulate the price of gold?

Doyle: Barrick's short sales of gold add physical supply to the market that has a negative impact on the gold price equal to 100% of the amount of the sale. A short sale is a technique used to take advantage of an anticipated decline in the price by borrowing gold and selling it immediately into the spot market. The short-seller incurs the obligation to repay the borrowed gold, usually within a relatively short period of time. In effect, the short-seller is betting that the price of gold will go down.

Since most short sales require delivery within one year, the negative impact on the gold price is usually short-lived. However, under the terms of its privately negotiated derivative contracts with J. P. Morgan, Barrick had the ability, at its sole discretion, to reschedule the delivery date under the contracts. Barrick, and *only* Barrick as far as we know, was able to defer the repayment of the borrowed gold for as much as 15 years and had no margin calls to contend with at any gold price.

As a result, while other short sellers had to cover or add additional margin when the price of gold went up, Barrick already had pre-arranged derivative contracts in place that gave it the ability to *add* to its short positions at the higher prices. Rather than being forced to cover its short sales, pushing the gold price higher, Barrick added large amounts of physical supply as the market hit those higher prices, eventually serving to drive the price back down. By adding to its short sales at the higher prices, Barrick increased the interest premium it earned; increased its profit when the market turned down; and added physical supply that helped to depress the price, adding a self-fulfilling element to its short sales of gold.

From 1996 through 2001, as the price of gold declined, bullion banks and other commercial and investment banks have left the market and the daily turnover of gold in the London interbank market fell more than **50%**. This huge contraction in trading volume made it possible for smaller volumes of sales to have a significant depressing effect on the price of gold. At a time when small changes in supply or demand could have a dramatic impact on prices, **Barrick increased its short positions, which add physical supply to the market, from 6 million ounces to as much as 24 million ounces!**

In addition, Barrick treated all of its short sales of gold as off-balance sheet assets, meaning that they were not included on its balance sheet nor were changes in their fair market value included in their current earnings. Therefore, Barrick could afford to manipulate the price of gold upward even when it had huge short positions, despite the fact that it would result in a big mark-to-market loss in its short positions, because that loss didn't affect is balance sheet, didn't affect its current earnings, and didn't affect its immediate cash flow because, whatever the price of gold did, Barrick still had 10 to 15 years to repay the borrowed gold. Periodically, Barrick manipulated the price of gold upward by: 1) reducing their short positions, which added demand or reduced supply and 2) by making false and misleading statements that communicated either their bullish prognosis for gold or their plans to make changes to their short positions that would serve to reduce supply.

Barrick made $2.2 billion in additional revenue on those short sales of gold. Not only did Barrick make huge profits on its short sales, those short sales were profitable in every one of 60 consecutive quarters. A short sale is a zero-sum game. For every winner, there has to be a loser. The losers on the other side of Barrick's trades have been Blanchard's clients and everyone else who has been a buyer or owner of gold.

Taylor: Once the price would go up, they would take another short position at a higher price and thus make more money from their short sale?

Doyle: Right, exactly. And they also were involved in sponsoring the publication of bullish statistical data about gold's supply and demand fundamentals that they knew were false because of their own trading activities. Those statistics were published by CPM Group and, to a lesser extent, by the World Gold Council.

If you look at the supply and demand fundamentals in CPM Group's annual gold survey, which is used by many investment analysts and gold investors, they have no category either under supply or demand for the short positions that are put on by gold producers such as Barrick. And they specifically state that these positions neither add nor subtract from physical demand either when they are put on or when they are covered - that they are purely paper transactions.

Taylor: Does that make any sense to you? Could you explain how that might be true? Does it make any sense at all?

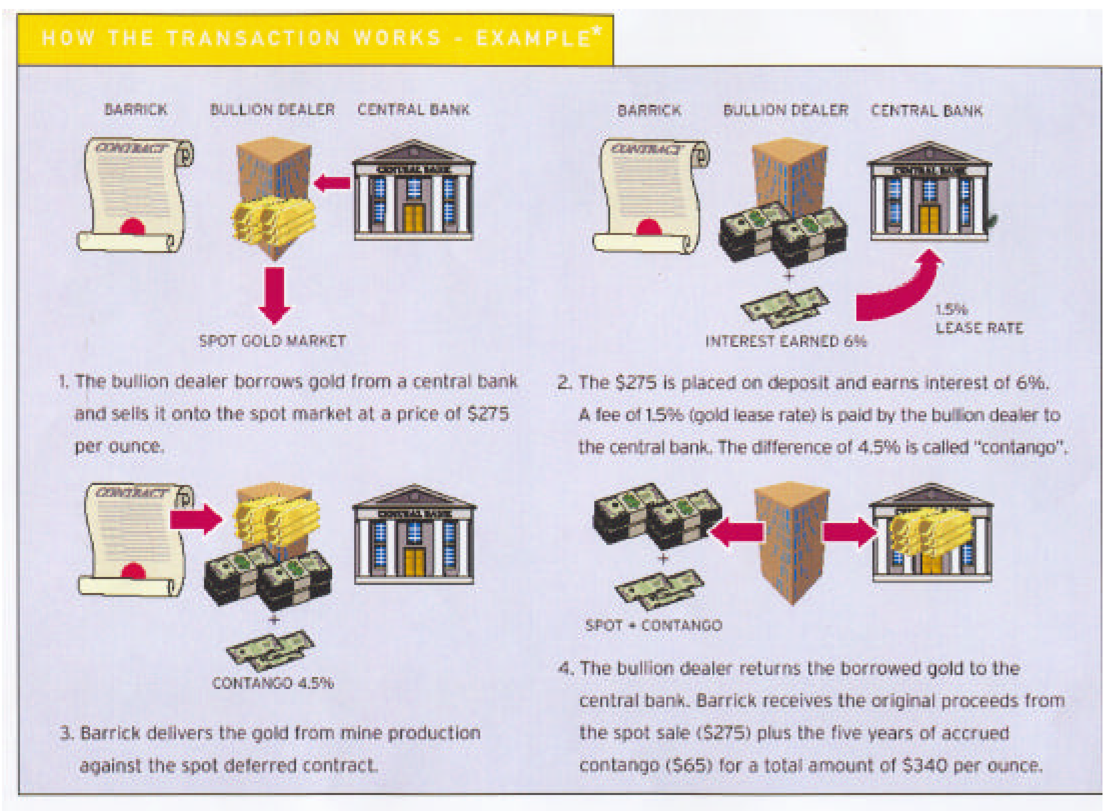
Doyle: The position that CPM Group takes is that it is as much as 20 times more expensive to enter into an actual physical short position than it is to use paper hedges, and that the gold market compared to other commodity markets is relatively liquid and has a strong derivative component that would enable gold producers to hedge the volatility out of their transactions without having to engage in forward sales that would depress the price. They insist, based on their experience, that producers' "hedging" transactions - specifically those engaged in by Barrick - don't add to physical supply.

If you look at their Annual Survey, at the end of 2001 - I don't remember the exact number - but they say that free world mine production is approximately 65 million ounces. And that excludes the short positions that have been put on by Barrick. And to give you the size of those positions, they were over 24 million ounces. So they were a very, very significant part of the supply/demand fundamentals for investors and a piece of information that investors should have had to work with.

Taylor: So those were 24 million ounces that would have come out of the central banks.

Doyle: Yes, to the extent that they consisted of actual physical supply.

A Healthy Price Neutral "Gold Carry Trade" Transaction



* - Barrick Annual Report - 2001

The transaction noted above was shown in Barrick's Annual Report. Nothing dishonest or wrong about this transaction because the gold that goes out comes back into the central banks and thus off of the market. Presumably, the gold that J.P. Morgan borrowed from Central bank and then lent to Barrick ***never*** *had to be returned to the central banks because according to Blanchard & Company's CEO Doyle, J.P. Morgan allowed Barrick to retain an "evergreen" or "permanent" 15-year gold repayment schedule because at the end of every year, one additional year could be tacked on to the maturity of the gold loans.*

Taylor: O.K. But I don't quite understand how you reach the conclusion that this large amount of physical gold hit the markets when CPM Group didn't? Could you explain why the disagreement?

Doyle: Yes. We couldn't reconcile CPM Group's statistics and we couldn't reconcile the profits realized by Barrick in the absence of actual, physical short sales of gold by Barrick. So what we did was to get copies of Barrick's filings with the SEC. Barrick, as a foreign company that is traded on the NYSE, has to file what is called a Form 40F, which is a slightly abbreviated version of the annual filing that U.S. companies have to make if they are publicly traded. In Barrick's filings, there was a very clear exposition of how their hedging works. You don't have to be a sophisticated accountant to track it. There is even a simple diagram that explains that 1) a bullion bank borrows gold from a central bank on Barrick's behalf; the bullion bank immediately sells the gold into the spot market, which adds physical supply; the bullion bank invests the proceeds from the sale for Barrick's account; Barrick then has much as 15 years (or more) to repay the borrowed gold. Barrick could repay the borrowed gold tomorrow if they want to, but they can defer repayment as much as 15 years or more.

Taylor: But eventually, at the end of 15 years they would have to pay it back wouldn't they? If you said Barrick started doing this back in the late 1980's aren't the 15 years about up?

Doyle: But listen to this part of it. There is what is called an evergreen clause in all of their spot deferred sales contracts. And the evergreen clause provides that, if you have 15 years to repay the gold loan, if the counterparty does not give notice that it will not extend the contract for an additional year, then the 15 - year period starts all over again. And none of the counterparties have ever made a call under the evergreen provisions. In other words, these contracts have been rolled forward on an annual basis. If they started out with 15 years five years ago, they still have a 15-year contract today.

The reason that is so relevant, and the reason that the lack of margin calls is so relevant, is that since they were making 5% on the contango – the differential between the gold lease rate and what they were earning on the dollar proceeds of the sale of the borrowed gold - they have a huge incentive to maintain as large a short position as they possibly can. At the end of 2001, their short position was $5.5 billion dollars earning 5% per year. That's a hell of a good business. It's like the Harvard professor's explanation of a perfect business model - a post office box to which people send certified checks.

So you see what happens? When the price of gold went up (up until about the last 18 months), Barrick already had pre-arranged derivative contracts - written call options convertible into spot-deferred sales contracts. In their SEC filings, they said that if gold prices rose to levels that permitted them to make the conversion to spot deferred sales contracts, they had both the ability and the intention to do just that. All that means is that they had built-in hurdles that the price of gold had to get over, because as soon as gold hit those prices they had as much as 6 million ounces in pre-arranged derivative contracts that would result in additional physical supply being dumped into the market.

Taylor: Holy Mackerel! An indefinite short sale with no risk!

Doyle: Cool, isn't it?

Taylor: I believe we touched on why higher gold prices benefited Barrick and J.P. Morgan. But can you explain for the benefit of our subscribers who may not be all that familiar with short sales, how both higher and lower prices benefited both J.P. Morgan and Barrick?

Doyle: If Barrick has managed to push the price of gold up, when they then put on a short position they benefit in two ways. First of all, the amount they receive from the gold borrowed and sold into the market is greater, and therefore the contango that they earn represents a percentage of a bigger pool of money. Secondly, if they short gold at $300 and it goes to $200, then they make $100/oz. on the short sale. If they short gold at $350 and it goes to $200, they make $150/oz. The higher the initial price, the larger the profit and the smaller the risk.

Taylor: I can understand how that would benefit Barrick. But how does it benefit J.P. Morgan as a lender. Aside from J.P. Morgan's indirect equity interest Barrick, how does J. P. Morgan benefit from lower gold prices?

Doyle: Well let me go back just a second. We know Barrick made $2.2 billion on its spot-deferred sales contracts or on contracts essentially the same as those. With J.P. Morgan, we are not exactly sure of the amount they have earned or the extent of their financial interest. What we do know is that, based on the statistics maintained by the Comptroller of the Currency, the gold derivative positions held by Chase and Morgan before their merger, and by J.P. Morgan Chase after the merger, were greater than those of all of the other banks and trusts companies in the United States combined.

We also know that the size of the gold-carry trade that was maintained by J.P. Morgan and Chase was very extensive. So J.P. Morgan Chase would obviously have a very big economic interest in having an idea of what the spot price of gold was going to be - where it was going to go - because the physical price is ultimately the determinant of the profit or loss that is realized on the associated gold derivative contracts. In some circumstances, the J.P. Morgan Chase positions appear to have been as much as 10 times the size of the Barrick position.

We also know that J.P. Morgan had divisions, subsidiaries and affiliated entities that were active traders in the various regulated markets. If you know where the spot price of gold is going to go, you have a huge advantage if you are actively trading in regulated futures markets such as the COMEX.

Taylor: So there are a number of reasons why J.P. Morgan would want to see the price of gold go down or at least have inside information about its direction.

Doyle: Yes. And remember that, under the Commodity Exchange Act, if you manipulate the price of gold in the spot market, you can be guilty of violating the Act itself because the manipulation of the spot market has a direct impact on the gold futures contracts that are traded on the regulated market.

Taylor: Do you believe J.P. Morgan and Barrick are still to this day striving to drive the gold price down or at least cap its rise? I see as we speak, the price of gold closed in New York at $406. If they are trying to cap it, it seems they are not being very effective. But do you think J.P. Morgan and Barrick are still working together at this moment to cap it and to at least keep it under control.

Doyle: I really don't know.

Taylor: With the gold price rising from its low of about $255, might this be evidence that the team of J.P. Morgan Chase and Barrick are no longer engaged in manipulating the market? Or do you think the J.P. Morgan /Barrick effort to drive the price of gold down is still ongoing but is no longer able to overpower market forces as they might have in the past, assuming you are right about your manipulation claims?

Doyle: The price of gold didn't really respond until Barrick stopped adding additional supply through its short sales and started adding additional demand by covering its short sales. The year 2001 saw the lowest annual gold price since 1978 - $271. At the end of the year, Barrick's short position stood at 24.1 million ounces, its highest level ever. By the end of the first quarter 2002, Barrick's short position was unchanged and the average quarterly price of gold was $290, despite the worst terrorist attack in U.S. history. Serious increases in the price of gold didn't occur until the second quarter of 2002, when Barrick reduced its short position by 3.1 million ounces and the average quarterly price rose to $312. By the first quarter of 2003, Barrick's short position had been reduced by almost 7 million ounces and the average quarterly price of gold was $358. By the fourth quarter of 2003, Barrick's short position had been reduced by 8 million ounces and the price of gold rose above $400. The price of gold didn't really respond until Barrick stopped adding additional supply through its short sales and started adding additional demand by covering its short sales.

I'd like to bring up a related point. It was suggested that I had expressed the view that the fundamentals in gold were bad, and that investors shouldn't buy gold. I never said the fundamentals were bad. I said that the fundamentals were fantastic and that the price of gold should be going through the roof.

Taylor: Yes, I'm absolutely sure I misstated your position. I just didn't recall accurately what your position was. But that leads me to ask you then. You thought all along that gold if free to trade in a free market was an excellent investment. But because it was manipulated you thought investors didn't have a chance to make money owning the yellow metal?

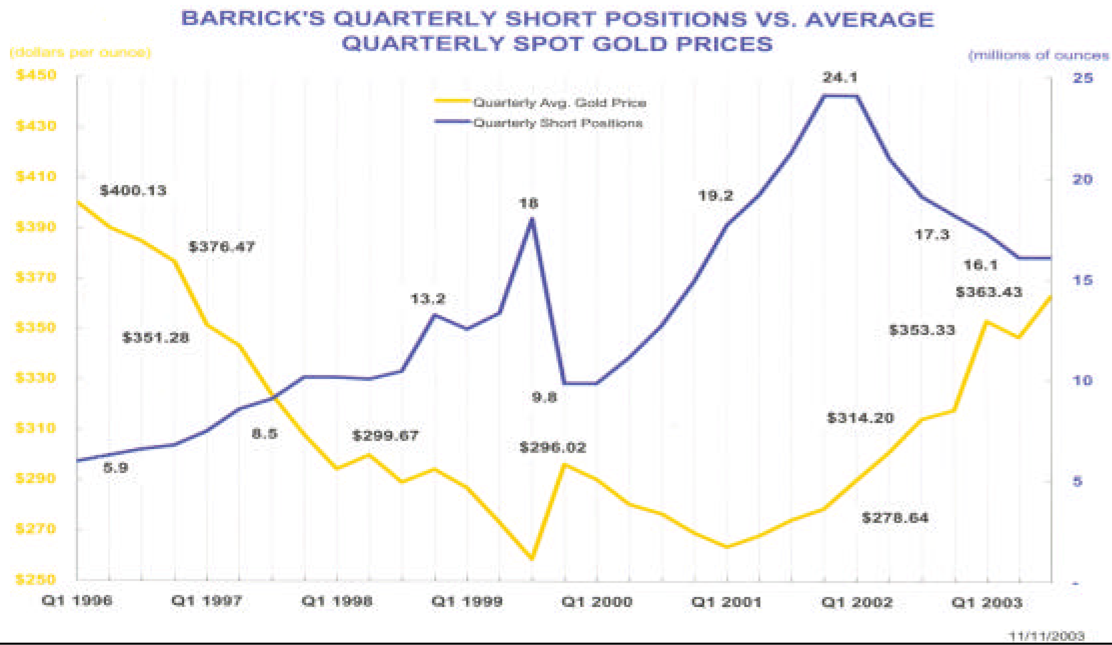
Doyle: That's correct.

Taylor: So what I would like to ask you at what point did you figure out that this thing was worth fighting over and that you might have a meaningful chance to win your anti-manipulation suit?

Doyle: I think that came when we realized just how defensive the World Gold Council was about the activity of their financial sponsors, and when we started to realize that factors that historically created a higher gold price were present in the market and still the gold price wasn't being permitted to follow the normal laws of supply and demand. We had a series of correspondence with the World Gold Council in which we asked them to comment on our research. I asked them to rebut our research if they could and provided them with whatever data we had worked with. Anything they asked for we sent to them. What we said to them essentially was that we couldn't sell gold in good conscience if the World Gold Council couldn't provide a rationale for why we ourselves should want to own gold and to keep the gold we already had. In the absence of any kind of commitment on their part to such a rationale – first of all we needed to warn our clients. We also felt we had a responsibility to the people that we sold gold to, to first stop J.P. Morgan and Barrick, and second pursue a course that would enable our clients to recover the money they had lost.

Taylor: Can you provide for our readers some statistical evidence that the transactions that J.P. Morgan and Barrick were responsible for did in fact push the price of gold downward?

Doyle: There are a lot of ways to approach it. The first way is to chart the price of gold against the short positions that were put on by Barrick. We only have accurate data on Barrick's positions back to 1996 because we don't have quarterly information before that, but we will have all of that after discovery. But if you chart the available data from 1996 through the present, you find that there is an almost perfect negative correlation between the size of Barrick's short positions and the gold price.



Also, think of the size of Barrick's short position relative to other factors. As of the end of 2001, Barrick's net short positions were:

- Approximately equal to the combined annual output from every gold mine in South Africa and the United States, the two largest gold producing nations in the world.
- Significantly more than annual gold sales by central banks in the 1990s.
- Significantly more than the total of the gold sales made by the world's central banks in either 2000 or 2001.
- Eighty (80) times the speculative position limits set by the COMEX.
- Significantly more than the net amount of physical supply added (at any given time) by the world's two dozen major bullion banks, combined.
- Approximately double the combined net short positions of the major hedge funds, including any short positions held by major commercial banks through proprietary trading.
- Approximately five (5) times the annual global investment demand for 2000 and 2001, *combined*.
- Approximately three times as many ounces of gold as were used in the production of all of the U.S. Gold Eagle Coins sold since 1990.

Taylor: That was its cumulative short position, so it isn't the amount of gold J.P. Morgan and Barrick dumped on the market each year.

Doyle: That is correct, but if you just take the additions to its short positions for 2000 and 2001, they totaled 14.3 million ounces, which is significantly more than the annual gold sales by all of the central banks in the 1990's. Global investment demand for 2000 and 2001 combined was 6.7 million ounces, and the addition from Barrick to physical supply was 14.3 million ounces. Anyone who thinks these figures are not big enough to affect the price has not spent much time with markets and doesn't understand the concept of prices being made at the margins.

Maybe the most persuasive evidence is the fact that Barrick's position was 80 times the speculative position limits on the COMEX. (The speculative position limit for gold is set by the COMEX at 300,000 ounces, and is applicable only during the month when the futures contract matures and becomes deliverable. Barrick has the discretion to make delivery under its short sales contracts in any month it chooses. The COMEX limit applies to futures contracts, rather than the physical short sales made by Barrick. However, that 300,000-ounce figure represents the best estimate by the CFTC and the COMEX of the size of a speculative position that could cause "unreasonable or unwarranted price fluctuations.") Although the speculative position limits may not apply to Barrick since its spot-deferred contracts were privately negotiated, the purpose of the limits is to delineate the levels at which there is undue pressure on the market. If 300,000 ounces is considered to be that level, what does that tell you about the impact that 24 million ounces will have?

Taylor: So one might wonder why these can be unregulated markets?

Doyle: Well, there is a pretty good argument that, despite the fact that these are privately negotiated contracts, since they serve to manipulate the spot price they are going to be subject to regulation.

Taylor: Could you talk a little about the defensive arguments put before the judge by J.P. Morgan and Barrick?

Doyle: This may not be all-inclusive, but the first was the concept of sovereign immunity. The issue raised by Barrick was that the central banks were involved in the spot-deferred sales transactions since they were the ultimate lenders of the gold, and since they were involved they were therefore indispensable parties to the suit. Since they couldn't be included because of the concept of sovereign immunity, Barrick claimed that the whole suit had to be dismissed.
\
The Judge essentially said that, by bringing a lot of big powerful parties into a transaction, you can't make it immune from the anti-trust laws. The Judge also said that the central banks were not indispensable parties and that Blanchard was not alleging that they (central banks) had been involved in any illegal activity under the anti-trust laws. In Reginald Howe's suit, I think he was running into an immovable object, the concept of sovereign immunity.

Taylor: Any other major arguments by the defendants?

Doyle: Well, we have already discussed the contention by J.P. Morgan that we failed to allege a viable economic motive for their participation in the conspiracy with Barrick. In addition, both parties claimed that the objective of anti-trust laws is lower prices.

Taylor: And the Judge didn't quite see it that way, did she?

Doyle: No, not at all.

Taylor: Not as it pertains to gold. I think she said gold was a special market because gold investors and consumers benefit from higher prices.

Doyle: That's right. Essentially what the Court said was that gold is an extraordinary commodity, that the consumers of gold were principally investors, and that, unlike consumers of most commodities, the interests of holders of investment gold were not advanced by falling prices. The defendants also claimed that Blanchard failed to allege a specific agreement to fix the price of gold, but the Judge held that Barrick's "Premium Gold Sales Program as alleged is nothing but a specific agreement to fix prices."

The Judge provided a wonderful summary of the issues: *"Ignoring the minutia, the Complaint alleges that Barrick, in combination with Morgan is artificially manipulating the gold market by the sheer size and volume of its activity. This claim will stand or fall on whether the alleged conduct creates an artificial market that manipulates the price of gold or whether the complained of consequences are simply the byproduct of stellar business acumen."*

Taylor: A great number of things have changed at Barrick since Blanchard launched litigation against that gold mining company. Barrick's CEO was dismissed. And then suddenly last week the company made a 180-degree turn with regard to its hedging policy. And we note that Barrick's President had to suddenly cancel a speech in London to fly to New Orleans for an urgent meeting. As Bill Murphy of GATA noted, Mardi Gras wasn't happening last week in New Orleans causing some folks to speculate something big may be happening with the law suit. Would you care to speculate about these sudden changes of events at Barrick?

Doyle: I can't comment on that.

Taylor: O.K. Understood. A very talented gold mining analyst named Frank Veneroso suggested back in 1998, on the basis of his detailed supply and demand analysis of the gold markets, that were it not for major gold dishoarding from central banks by way of leasing and outright sales, what he calls the "commodity" price for gold would have been $600+. Mr. Veneroso, who has been a consultant to the World Bank and to several national governments, has had a history of independently honing in on markets that he believed were, for whatever reason, considerably out of whack with their equilibrium prices. As a Keynesian, he certainly was never a gold bug. But his research told him gold was a very, very undervalued commodity. And his independent research took him to his $600 gold price conclusion.

On the other hand, the CPM Group and the World Gold Council have both scoffed at Frank Veneroso's numbers and at his contention that up to ½ of the gold central banks claim to hold has been leased out into the markets, never to be returned again. My question is, do you believe the vested interest those groups have received from Barrick might have had something to do with the relatively bearish stance they have consistently taken over the past number of years?

Doyle: I think it is hard to bite the hand that feeds you.

Taylor: Fair enough. Getting back to the notion of the CPM Group that Barrick's hedging position did not add to the supply of gold into the markets, you noted earlier that they argued that Barrick simply used the derivative markets to hedge their position because it was so much cheaper. But might part of their thinking also have been premised on the notion that at least with shorter-term contracts, you have an offset on supply by new hedge positions being balanced with hedges that are running off? Might it be that CPM simply didn't factor in the endless short position that Barrick was privileged to have thanks to the evergreen provision in their spot deferred contracts?

Doyle: I don't think that was what they had in mind. What they were saying was that, from the very inception, Barrick's "hedging" involved paper transactions that did not materially impact the market.

They insisted on that view even after I presented them with material that came from Barrick's SEC filings that showed conclusively that Barrick was adding physical supply to the market. But you are entirely right that, with most short sales, you do have a relatively short time in which the market is damaged by their acceleration of supply. Most of them are on a short fuse. Even if a short-seller has a year to repay the borrowed gold, the fact that he has to put up margin makes him think twice about holding on to a position that is moving against him.

Taylor: But if you don't have to worry about margin…

Doyle: If you don't have to worry about margin and you have 15 years, well let'er rip!

Taylor: Or in the case of Barrick, an indefinite amount of time with the evergreen provision of the spot-deferred contract. As I just mentioned, Frank Veneroso's work suggested $600+ in 1998 on the basis of commodity gold. No great move out of fiat money into gold, but during a relatively prosperous period of time for America. Now could you tell our subscribers what you think the price of gold may be absent the practices you are seeking to litigate against?

Doyle: There are several ways to approach the calculation, but the number $600 sounds awfully close as of 1998. If you take the end of 1987 as a starting point (simply because that is a point in time when Barrick began its hedging operations) and you assume that the price of gold is going to increase at a rate roughly equivalent to the rate of global growth, then the price a year ago would have been somewhere around $750.

If you take inflation into account over the period from the beginning of 1988 forward, again you come up with a number that is around $750 – a little higher than that. So Frank's number sounds to me to be close to our numbers.

Taylor: Well we seem to be in the very early stages of a gold bull market. Gold closed today at $406. Do you agree we are in a gold bull market and how high do you expect the yellow metal to rise?

Doyle: Yes, we are in the early stages of a gold bull market. Gold will take out the $850 high that it hit in 1980 as soon as investors are convinced that it is capable of responding to the factors that historically have determined its price. If Barrick and Morgan are forced to cover their short positions, we'll see a scramble that will take gold over $700 – fast. However, the key to the duration and extent of a bull market is the reestablishment of investment demand. It may take awhile for investors to be convinced that it's safe to go back in the water.

Taylor: So the gold manipulation to lower prices sort of fed on itself as consumers turned against gold simply because of its poor investment performance caused in no small part because of the manipulation?

Doyle: Yes. I don't think it was just the fact that the price was low. I think it was that when there was a global banking crisis in 1997 and 1998, gold didn't respond more than it did. When we had a tripling in the price of oil, the price of gold didn't react. When the NASDAQ fell on its face and the other stock market indexes followed, the price of gold actually went down. Gold wasn't performing its role as a hedge against inflation and it wasn't performing its role as financial insurance. I think that was directly attributable to manipulation. Absent manipulation, I think that now is a perfect time for investors to be buying gold.

Taylor: Can you tell our readers how they can find more information about Blanchard's gold sale products.

Doyle: Just call 800-880-GOLD.

When we concluded that the price of gold was being determined by parties that had a vested interest in the price going down rather than up, we stopped charging a commission on our sales of gold. We are still selling "No Load" gold. We charge only the cost of shipping and handling.

Since October of 2002, we have been encouraging our clients to buy gold. We told them that manipulation was virtually impossible to carry on in the cold, clear light of day and that, given the scrutiny of the Court, we thought Barrick had to change its practices, which we thought would be tremendously positive for the price of gold. Since then, the price has gone up almost $100. The early 1980s presented a once in a lifetime opportunity to buy stocks. Today, we have a one in a lifetime opportunity to buy tangible assets.

Taylor: Well certainly they (Barrick) seem to be on changing their way to their practices, if what they say they are going to do, they do.

Doyle: Well, I think that it will be very interesting to see what happens to the price of gold between now and 2004, which is the time for the renewal of the Washington Agreement on Gold. We are going to see a much higher price. The key is going to be what is happening with investors. Investment demand increased last year, but investors still bought less than $4 billion worth of gold. When you think about the amount of money that is available out there, once investors realize that gold really is undergoing a sea change, I think we are going to see gold zip right past the old $850 high.

Taylor: Don, it would seem as though the central banks would look awfully stupid if they keep selling at below market prices. The Washington Accord limited the countries to the amount they could sell, but it didn't obligate them to sell. So I suppose the central banks could come up with some limit again but then not sell as much as they are allowing themselves to sell?

Doyle: Yes and the Washington Agreement may become irrelevant because, as you say, if the price is going up, the central banks won't be sellers anyway.

Taylor: Let me ask you one other thing. This probably should have preceded the other question I asked about how investors can get information on Blanchard. Can you give our subscribers an overview of what products you sell. You sell bullion coins, but do you also sell numismatics.

Doyle: We are a full service rare coin and precious metals dealer. Anything you want in the way of precious metals and rare coins, particularly U.S. rare coins, we have. For the decade of the 1990's we were by far the biggest retail dealer in physical gold and platinum. We are also the largest retail dealer in rare coins.

Taylor: Would you recommend rare coins at this time?

Doyle: I would certainly recommend rare coins. Just as investors should diversify their financial assets, they should also diversify their tangible asset portfolios. Rare coins are a leveraged way to play the gold market. They are not just driven by inflation and currency concerns, but are also driven by affluence. As a result, we have had bull markets in rare coins even when the price of gold was going down as in the latter part of the 1980s. But there is no better time for any of the tangible assets than when gold is doing well, because so many investors believe gold is a proxy for all of the tangible assets.

Taylor: Except I'm more bullish on gold in a deflation than for silver and other commodities. Would you agree with that?

Doyle: Yes, probably so. We have had periods when we sold more platinum than gold simply because the industrial uses for it were much more extensive and it was more dependent on global growth.

Taylor: Exactly, so that in a recession you might expect less of industrial metals and more of gold if the depression resulted in destabilizing the banking markets?

Doyle: Yes, I certainly believe so.

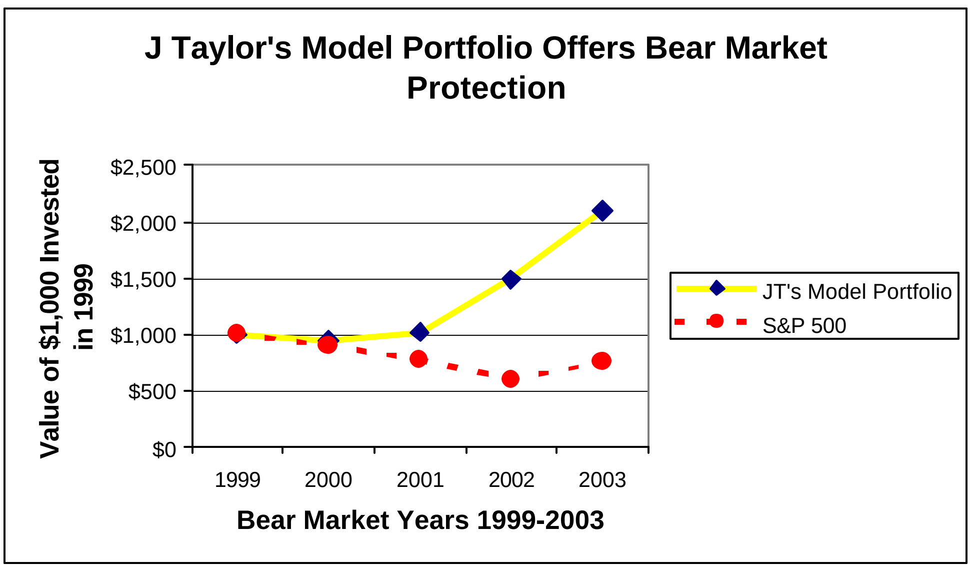
Taylor: Well I want to thank you very much. I think my subscribers are deeply indebted to you for taking your precious time to help us understand the Blanchard suit and how that impacts their gold investments.

Doyle: I'm happy to do it, and I hope you manage to get home in what seems to be a miserable night in New York.

Taylor: Well the snowstorm will pass as will my bronchitis and a $406 gold price certainly helps ease the pain.

The End

Beating the Market Four Years Straight



In 2000, Jay Taylor devised a Model Portfolio in "J Taylor's Gold & Technology Stocks" with the goal of beating a stock market he considered at the time to be hugely overvalued. As the chart above and the table below demonstrate he was successful in his efforts. After this four-year period, Jay's Model Portfolio beat the S&P 500 four years in a row and $1,000 invested in Jay's portfolio would have grown to $2,095 by the end of 2003 vs. a loss of $247 to $753 for the S&P 500, despite the S&P 26.38% gain in 2003.

J Taylor's Model Portfolio vs. the S&P 500 (2000 through 2003)

Year	Gain/(Loss)J's Portfolio (%)	Gain(Loss) S&P 500 (%)	Cumulative Value – J's	Cumulative Value – S&P
2000	-5.2%	-10.14%	$948	$899
2001	+7.6%	-13.28%	$1,020	$779
2002	+46.2%	-23.58%	$1,491	$596
2003	+40.1	+26.38%	$2,095	$753

The sector allocation and gains by sector for J Taylor's Model Portfolio at the end of 2003 were as follows:

J Taylor's Model Portfolio **as of: 12/31/2003**		
Category	**Weight**	**YTD Gain**
Quality "A" Gold Producers	16%	19.92%
Speculative Mining Shares	24%	142.61%
Essential Technology Stocks	6%	106.62%
Energy & Energy Technology	11%	219.93%
Gold & Silver Bullion	3%	21.67%
The Prudent Bear Fund	15%	-13.02%
The Prudent Global Income Fnd	17%	14.99%
Rogers Raw Materials Index Fd	7%	31.96%
Model Portfolio	**100%**	**43.05%**
S&P 500		**26.38%**

In total, this portfolio contains over 60 stocks plus several mutual funds that round out a portfolio geared to profit from Jay's belief that we are still very early in a bear market for equities, the dollar and bonds and at an equally early stage for a multi-year bull market in gold.

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