

# FINANCIAL SENSE ONLINE

## Newshour's Ask The Expert

### TRANSCRIPTION OF INTERVIEW

July 27, 2002

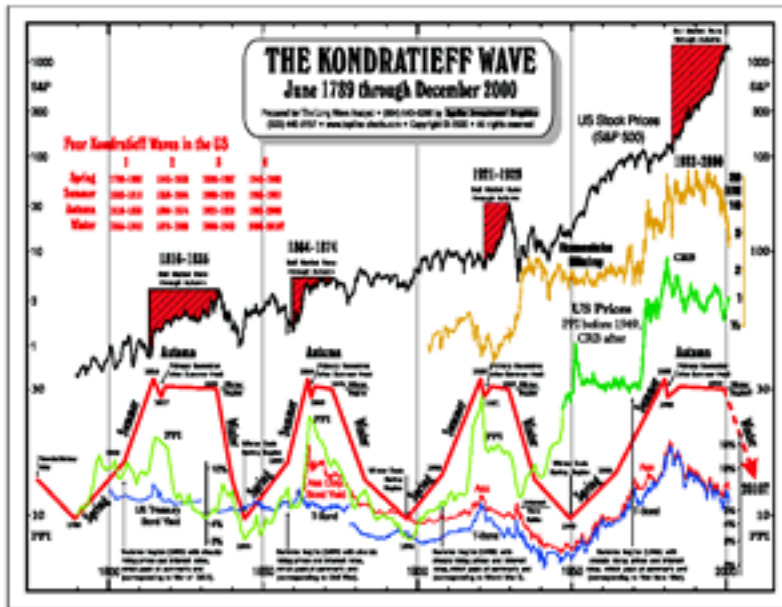
**Ian Gordon, Editor, The Long Wave Analyst**  
**"The Kondratieff Winter"**

**Editor's Note:** We have edited the interview in this transcription for clarity and readability. The original real audio interview may be heard on our [Ask The Expert](#) page.

### The Kondratieff Seasons



**Larger View**



**JIM PUPLAVA:** Joining me on the program is Ian Gordon. He is Vice President of Canaccord Capital, a Vancouver-based brokerage firm. He was educated at the Royal Military Academy at Sandhurst and has a Bachelor's in History from the University of Manitoba. He is also the editor of *The Long Wave Analyst*. Ian, welcome to the program.

**IAN GORDON:** Thank you, Jim.

**JIM:** I want to talk about your newsletter, *The Long Wave Analyst*, and I thought, before we do so, that you might explain who Kondratieff was, since a lot of your work is based on his work.

**IAN:** Kondratieff was a Russian economist, one of the leading Russian economists during the 1920's. He basically undertook a study of capitalism in which he formulated that the economy ran through a long cycle of expansion and then contraction. The cycle was approximately 50 to 60 years in length. He did it by going back, really, to the dawn of the industrial revolution about 1789 and looking at things like the movement of capital, prices and international trade movements.

**JIM:** Now, in this Kondratieff Cycle there are four seasons, just like we have the four seasons of nature. In fact, in your newsletter, you quote W. D. Gann and he said, "The four seasons of the year teach us that there is a reaping time and a sowing time and a time that we cannot reverse the order of nature's law." Explain those cycles.

**IAN:** Really, all I've done, and I think all other writers who've written about Kondratieff, have done, is to break the cycle into the four seasons and I think they're very apropos. *Spring* being the rebirth of the economy. *Summer* being the period when the economy really flourishes and it's also the time when you get the inflation. *Autumn* being a period when people feel good even though winter lies ahead. You still get those Indian Summer days and so on. Then *Winter* being the time when the economy sleeps and it's the season when debt is flushed from the economy so that it can start refreshed in the Spring.

**JIM:** Joseph Schumpeter, who is an Austrian economist, quoted that the Kondratieff Wave is the single most important tool in economic prognostication. Where are we now, in your opinion, in terms of those four seasons?

**IAN:** I don't think that there can be any doubt that we're now in *Winter*. We're in the period when debt is cleansed from the economy, so, as I say, that the economy can be renewed with little debt in the system. The winter period starts, following the peak in stock prices at the end of autumn. We always know we're getting into that Autumn period -- when we're going to have the greatest Bull Market in stocks in our lifetime and probably the greatest Bull Market in bonds and also the greatest Bull Market in real estate -- because four events anticipate these great autumn Bull Markets. Those four events occurred between 1980 and 1982. They were the peak in commodity prices, the peak in interest rates, the recession and the Bear Market in stocks. I think

people can remember the '81-'82 Bear Market. They can probably remember the peak in prices in 1980 and the peak in interest rates in 1981. Those same four events occurred between 1920 and 1921 and similarly they occurred in 1864 and again in 1816. When those four events come together, and it only happens once per cycle, we know that we're going to go into this great big Bull Market, the biggest of our lifetime. And when that Bull Market peaks, we know that now it's the end and we're going into Winter. Normally that peak in the Bull Market in stocks is signaled by a crash as it was in 1929. We had the peak in September then in 1929 and the crash in late October. This time we really haven't had a crash because a crash is caused by panic, an emotional panic, and we haven't seen that yet. Although, I think we're very close to seeing that now.

**JIM:** Let's talk about some of the substance behind the Kondratieff Long Wave, which is essentially waves of credit inflation and credit deflation. I wonder if you might discuss the role that credit inflation has played in this cycle, in this kind of boom and bust cycle, that we go through.

**IAN:** Well, when the Kondratieff Cycle starts (and our present cycle started in 1949 with the beginning of Spring), debt has been cleansed from the economy during the previous winter. People are very, very wary. They're scared that the depression will come back. Everything is paid for in cash. But, as the economy starts to regain some strength, as spring moves a long, some people start to borrow money for their major purchases like housing, but it's mainly corporations borrowing to expand in line with demand. During the Summer, borrowing picks up pace in line with increasing confidence. Corporations borrow quite heavily to expand their enterprises. So that borrowing goes to what I call a worthwhile cause because it goes to expand the capital goods area of the economy. When the recession hits at the end of Summer and the interest rates peak. The Federal Reserve gets very, scared about what's happening, so it start to bring down (the) interest rates, quite dramatically, and it pours money into the banking system in an effort to revive the economy. What happens then is that most of the corporations have already borrowed throughout the Summer, really don't need to borrow that heavily, so a lot of the borrowing is done by consumers. Because banks have all this money, they've got to make it available to somebody, so they make it available to the consumer.

The consumers start to borrow quite heavily. Because they're borrowing, they have the extra money with which to make purchases and therefore the economy starts to expand and, of course, the stock market expands with the economy. So consumers eventually, or fairly soon into this expansion, start to put money into the stock market and you get the growth of the mutual fund industry and so on, growing and attracting more investor money into it and the economy continues to expand. People start to get wealthy as a result and eventually the whole system becomes completely overwhelmed by the amount of debt and that occurs right at the end of the Autumn period.

The U.S. now has, 32 trillion dollars of government, corporate and individual debt in the system. Most of that money is going to have to be cleansed from the economy during the Winter. Once the peak of the debt cycle is reached at the end of Autumn, it must be eliminated from the economy during Winter -- we're probably 2 1/2 years into Winter now -- debt is being cleansed as we can see, through corporate bankruptcies. We've just seen the biggest one in U.S. history with WorldCom. Before that, the biggest one I think was Enron. So we're starting to see some very big debt bankruptcies and, that debt being taken out of the economy. At the same time, consumers, too, are starting to file for personal bankruptcies in record numbers. So, we are starting the debt cleansing process.

**JIM:** In this cycle then we've certainly seen it with Enron, WorldCom, Global Crossing, Kmart, Polaroid and these large bankruptcies. How would you explain the housing boom in the U.S.? Because, certainly the consumer spending pattern has held up as consumers have been able to refinance debt and take equity out of their homes. A lot of people believe that this real estate cycle is going to go on for a long period of time as people feel more comfortable with real estate. But to me, Ian, it just appears to me as

**the end of this cycle and another manifestation of a bubble.**

**IAN:** I agree with you, Jim. I mean, it really has. Real estate is built on debt as the stock market is built on debt, because the margin debt reached record levels when the stock market reached its peak. Real estate is doing the same thing. I think what's happened is that the Federal Reserve has made all this money available by increasing the money supply quite dramatically, and that money has really found its way through Fannie Mae and so on into the hands of the consumers to remortgage their homes or to purchase homes at higher prices. But that bubble, as I say, is built on debt and the whole purpose of Winter is to cleanse the economy of debt. So it's difficult to imagine the real estate market staying up in the face of a declining stock market where consumers, who are also in stocks, are losing their shirt there. Also, you have consumers who are steadily losing their jobs. It's difficult to see that this one debt bubble would stay aloof from what's happening elsewhere in the economy. I think the real estate market is poised to act exactly the same way as the stock market and all of that debt that's been built into that market will be cleansed.

**JIM:** How would you explain Mr. Greenspan's comments before the Senate committee last week? In many ways, he was talking about the effectiveness of Fed policy by talking about consumers or spending and the housing market that is strong. Do you think he just does not realize his own bubble or his own creation of this bubble?

**IAN:** I think Mr. Greenspan certainly knows the extent of the bubble. I had a friend in London who knew Alan Greenspan in the '60's and Alan Greenspan, at that time, said to him, "I would love to be Federal Reserve Chairman when the Kondratieff Winter comes because I think I could override it by dropping the interest rates and printing enough money that it would overcome all the deflationary aspects of economy." He's certainly trying that. So, I think he's aware of what's out there. Official people say a lot of things to try and bring some calm into a growing economic and stock market calamity.

**JIM:** How would you contrast the role of the Federal Reserve today in comparison to, let's say, the '20's? We all know, from reading Economics, that there was a great credit boom that led to the stock market mania that we saw in the '20's, which eventually led to the crash and, of course, the depression that followed. Contrast for me, Ian, the '20's with this recent Autumn period in this Kondratieff Cycle.

**IAN:** Well, of course, Jim, they were both Kondratieff Autumn stock Bull Markets. The 1921-29 Bull Market occurred in the 3<sup>rd</sup> Kondratieff Autumn and what we've just gone through was the 4<sup>th</sup> Kondratieff Autumn. They were both once in a lifetime experiences for investors. Basically, the Federal Reserve did exactly the same as the current Federal Reserve has done and is doing. There was a terrible Bear Market and recession between 1920 and 21 following the peak in interest rates, so the Federal Reserve flooded the economy with money, lowered interest rates, just as they did from 1981 onwards. That money eventually found its way into the speculative markets and particularly into the stock market. But the bubble then really wasn't as great because the Federal Reserve was somewhat constrained by its ability to print because the world was on the gold exchange standard. So, if it would've printed the way Alan Greenspan's been printing lately, America would've run out of gold very, very quickly. This time, there's been no gold standard to restrain the ability of the Federal Reserve to print so that the bubble has been far greater in size. The stock market bubble between 1982 and 2000 was 2 1/2 times the bubble of 1921-29.

**JIM:** If we look at the levels of debt, one of the things that strikes me about where we are today in comparison to where we were in the '20's, the debt level permeates all of society. We've certainly seen it at the corporate level in the '90's, where corporations took on more debt. We've seen it at the consumer level, where household debt is at record levels. And, even once again, even though we were

told the deficits went away in the '90's, government debt increased from a little over 2 1/2 trillion to today where it's almost 6.1 trillion. Contrast for me the condition of the U.S. government today in comparison to where we were in the last Kondratieff Winter in 1930, where the U.S. government was mainly a creditor nation.

**IAN:** In 1930 the U.S. was the largest creditor nation in the world. Basically the U.S. had financed the allies in the First World War and did very well out of that. This time the U.S. goes into this Kondratieff Winter as the biggest debtor nation in the world. So, it's a complete reversal of roles. By the way, the biggest creditor nation this time is Japan, which I believe has replaced the U.S. in terms of economic leadership going into the fifth Kondratieff cycle. So, what I'm saying here is that it's possible that Japan, coming into the next Kondratieff Spring, will be the leading world economy. Much as the US replaced Great Britain as the leading economic power following the last Kondratieff winter. I think we had a preview of that in the late 1980's.

**JIM:** Now if we look at the markets over the last couple of years, we've had three consecutive years of losses for the stock market. In fact, as you and I are speaking, it was another down day for the financial markets. We have the Dow Industrials down 23% year-to-date. The S&P is down nearly 31%. The NASDAQ is down 37%. Ian, I want you to address the issue of crowd psychology in this Kondratieff Cycle because, despite three years of consecutive losses, we have not seen the big crash days as in 1987 or October 1929. The individual investor is still holding on, for the most part, because up until recently, the redemptions of money flowing out of mutual funds had been rather minimal. In fact, we have actually seen some money come into this market this year.

**IAN:** I think the difference between 1929 and say 2000 was that in 1929 at best only 5% of the American people were invested in the stock market. So, it didn't take a lot to panic 5%. That panic occurred very quickly after the peak in stock prices in September 1929. This time we've got more than 50% of Americans invested in the stock market. Also this autumn Bull Market took much longer to run its course than did the 1921-29 Stock market. Because of that, I think that people, have been conditioned -- to buy on the dips and 'invest for the long-term'. I think only now is that psychology -- that understanding that markets always go up -- that's slowly starting to wear thin and people are very, very nervous right now. Really, if you look at the psychological cycle, you see that at the peak of the stock market that the crowd is euphoric. It is filled with the confidence that money comes easy, and that they can do no wrong. Then as stocks go down, the crowd begins to feel concern. Then concern turns to fear as stocks continue their downward path. Beyond fear, the next course of action for the crowd is panic. So, I think we're in the fear stage and I do believe that we will see panic when people will say, "Just get me out. I don't want to see a stock again in my lifetime." and they probably won't want to own a stock again in their lifetime.

**JIM:** Up until this point, we have not seen that capitulation phase in your opinion? In other words, as you and I are talking, we're beginning, at least in my opinion and I think we both agree on this, that we're starting to see a little bit of that with these almost triple-digit down days for the Dow Industrials.

**IAN:** I don't think we're there yet because really. I think capitulation comes from panic -- I mean when people just absolutely run for the exits. We really haven't seen that yet. On October 29, 1929 I think the Dow was down 16% in one day and we haven't seen anything like that or those kinds of moves. Maybe the intervention has tried to hold the Dow. The Dow is a very small market - only 30 stocks. We really haven't seen the panic when people have just thrown out their mutual funds, as they did in 1987, and say, "Get me out!"

**JIM:** What is often seen in the financial press and you see it on the evening news, there's a big outcry against the fraud and scandal that is now being revealed in the markets, very similar to what we saw

**with the Insull Utility Scandal in the late '20's and '30's. There is a cry for government to do something about it. I wonder if you might address the fact that there is nothing that government, Congress, or a President can do to stop this Cycle from cleansing itself -- other than to make it worse.**

**IAN:** I don't want to, being a Canadian, say what the U.S. can and can't do. But my feeling is that, again, if you look at the psychology, what you really go from this whole thing – is a state of greed - everybody really wanted to participate. Everybody wanted those corporate executives to produce because when they produced, their stock prices grew. So it was a system that has really encouraged the lies and deceitfulness that now is becoming apparent. But, everybody was party to that really, to some extent, because they all encouraged it. They wanted to see it happen. As far as I'm concerned, the more rules that you put in place to try and stop this sort of thing really doesn't have an effect. What we will see is eventually the Bear Market will reach its bottom and no one will really want to own stocks at that stage. All these new laws won't be needed until the next Kondratieff Bull Market some 50 or 60 years hence and they're likely to have all been repealed well before that, just as the Glass-Steagall Act that was implemented after the 1929 crash was repealed during this autumn stock bull market.

**JIM:** So there's really nothing at this point a President could come out and say or Congress could do that could stop this Bear Market from unfolding or, for that matter, for this credit bubble from cleansing itself? Debt is debt. I don't think, or at least I don't believe, that we will see in the United States where the government will guarantee the stock market.

**IAN:** No, I don't think so. If it does, you might say, "We'll see." But basically, you've taken away the idea that the stock market is a free market. To do that would make it a market that no one really would want to invest in. No one would feel very comfortable if the market, if the government was always basically guaranteeing them. Things could only go up. In other words, that they would guarantee that with any losses, that the government would take those losses on behalf of the investors. I just couldn't see that happening. I really think the Cycle has to play itself out. We've got too much debt in the system. The system, the economy, has to cleanse itself of that debt and that's the whole purpose of the Kondratieff Winter. So, I don't think anybody can stop that process. Obviously they're trying to stop the process. The Federal Reserve is printing a lot of money trying to boost the money supply quite dramatically. But again, as I say, that money really has to get into the hands of corporations and consumers. But you probably have banks that are now reluctant to lend, except to the most creditworthy clients. You have corporations you can't borrow because they're already almost in bankruptcy. You have individuals who can't borrow because they're up to their eyeballs in debt and many of them are starting to lose their jobs.

**JIM:** I wonder if you might explain where you think the Dow is heading. In the last Kondratieff Winter, the British pound was supreme. It was looked upon as the world's currency. We now have a monetary system, which is based on the dollar. What do you see happening to the dollar and the monetary system in this process?

**IAN:** I truly believe that the world monetary system will collapse in the Kondratieff Winter, much as it did in 1932 and 1933 when the world gold standard system collapsed. Britain went off the gold standard system in September 1931 and was followed by several other countries. And eventually, effectively, the U.S. went off too. The system, while it lasted, allowed individuals in the U.S. to exchange paper for gold. We now have a fiat system. Incidentally, it's the first time, I think, in history, that the entire world is being run on a paper money system, which is a U.S. dollar system. I think that that fiat system is going to collapse much as the gold standard system collapsed in 1930. So it really doesn't bode well for the U.S. dollar if that does happen.

**JIM:** If it doesn't bode well for the U.S. dollar, what does it mean for the rest of the world? Just looking over the last decade at the '90's where you had the peso crisis in 1994, preceding that you had the S&L crisis in our financial system here in the U.S. We had the Asian crisis of over-inflated currencies in 1997. You had Long-Term Capital Management. You had Russia in '98. You had Turkey, I believe, in 2001. We now have had Argentina and it looks like Brazil. So globally, we are seeing this whole monetary system, a fiat monetary system, unraveled. Where does that leave us? And is gold, in your opinion, transitioning from its role as a commodity to its role as real money?

**IAN:** I believe that it is. The reason I say that is because the entire world is on the fiat system. All the currencies of the world -- the Euro, the Yen and so on -- are all paper, backed by nothing except debt. Because of that, I think that people are going to demand some discipline from their governments. What we've had is complete ill discipline here. We've had a Federal Reserve that's been printing money to beat the band. I think that with that, and basically the crash of paper assets in the '90's, I think people are going to demand a return to some sort of stability in the monetary system. Gold, traditionally for 5000 years, has always played that role. I do think that somehow it will play a role again.

**JIM:** What does that mean in terms of investments? We've talked about this Kondratieff Winter where you go through this long cleansing cycle in the markets, where this debt is cleansed from the system so that we can get back to the Spring and the rebirth of the economy and the financial markets. How does one survive a Kondratieff Winter?

**IAN:** Two investments that generally make sense in the Kondratieff Winter are cash and gold. You want cash because there are assets that depreciate in value and you have the ability to buy them at much lower values with your cash and obviously for everyday transactions. Gold takes on a role as money. Again, using the experience of the last Kondratieff Winter, we can see really what happened to gold. Between 1929 and 1936, Homestake Mining -- and I'm using a mining company rather than the gold itself -- Homestake rose 600%, which in actuality, was more than the stock market mania, which only rose 500% between 1921 and 1929. I use Homestake because, of course, the gold price was fixed because we were on the gold exchange standard system. So initially, the gold price was fixed at \$20.67 and later raised by Roosevelt in 1933 to \$35.00 an ounce. But with that fixed price, you can see a gold stock appreciating 600%. I think that's quite remarkable because people wanted to own gold and one way they could own it, particularly after Roosevelt confiscated it, was to own gold stocks where shareholders had a claim on the gold that those companies had in the ground.

**JIM:** One thing that happened in the United States -- and we seem to have a history of this in times of crisis -- we tend to confiscate gold as you just mentioned. In 1933 Roosevelt took gold away from the people. So the only way that they could own gold was in the form of gold shares. In fact, I was reading a story that said, during the late '20's Bernard Baruch was not only going into cash, but he was also buying shares of gold mining companies during that period leading up to the crash, and did quite well as a result of that. Do you think that governments could once again confiscate gold?

**IAN:** I think it's possible. There's nothing impossible when it comes to what the government might do. I think Roosevelt confiscated gold in 1933 for two reasons. One is that basically the U.S. Treasury had been depleted of so much gold because people wanted to exchange their paper for gold and foreign countries were also taking American gold out of the U.S. So the U.S. was so depleted of gold that the one way that he could replenish the Treasury's reserves was to basically tell the citizens to give it back. The other reason was, I think, that he didn't want to see gold in competition with the dollar, with the paper dollar. So, in this time I'm not sure that it's going to matter that much. Given that I think that the U.S. dollar monetary system will collapse, I'm not sure that there will be any alternative but gold for that dollar so that people will basically want to own it and demand to own it.

**JIM:** **What about the role of silver? How did silver do during the last Kondratieff Winter? And what do you think the role of silver would be during this Winter period?**

**IAN:** Unfortunately silver didn't perform that well. It performed like a commodity. Between 1929 and 1933, silver basically dropped from \$.75 an ounce down to \$.25 an ounce. Then certain Senators in the western states went to Roosevelt and said 'look, to keep our silver mines operating, we think that the U.S. should make silver a strategic metal'. Which he did. So the U.S. government bought all the silver that was mined in the U.S. from that period on and basically bought it so that the mines could be profitable and eventually the silver price did rise to \$1.00. Now, in this Kondratieff Cycle, again, I see initially, possibly, silver being treated as a commodity, which it was in that previous Cycle. However, because I feel that the scarcity of gold would suggest that the gold price is going to go a lot higher than it is right now, silver might then take on the role of the poor man's gold and become sort of a secondary monetary metal to investors.

**JIM:** **Now, talking about investing and surviving this Winter period, you suggest being in liquid cash and also being in gold. Explain the role of gold equities in this. You describe how well Homestake did during the '30's. But of course after '33, Americans weren't allowed to own gold. Assuming that it doesn't make a difference this time, that the government does not confiscate gold, or if it does, explain the role of gold equities.**

**IAN:** Well, I think the thing that people have to understand is how rare gold really is and how rare gold equities are. I think that at the peak of the stock market, or just about the peak at the end of 1999, the total value of all the equities worldwide was about 38 trillion dollars. The total value of all the gold stocks was 38 billion dollars, which was essentially nothing. The total value of all the gold ever mined was approximately 2 1/2 trillion dollars. So, when you compare it to the value of all of those paper equities and all the outstanding debt, gold is a very, very scarce and rare commodity, as are the equities. Therefore, any push in the demand to own either the metal itself or these equities will have a very strong move on the price. It has to because there just isn't enough to go around.

**JIM:** **One thing we know about the fundamentals of the gold market is that we've been running about 1500 ton deficits per year. We have 2500 tons mined by gold mining companies and we have demand for gold of roughly about 4000 tons per year. So this 1500 ton deficit has been made from above-ground supplies, whether it's scrap or central banks selling. What would you say to those that say most of the gold that has ever been mined still exists in the world today, that there is an endless supply, and that either central banks or this storehouse of gold that still exists could be supplied to the market to keep the price down?**

**IAN:** Well really there isn't an endless supply. I mean, the total value of all the central bank gold is, I think, about 500 billion dollars. So, it's nothing, again, compared to the value of the equities or even the bond market. Basically the other aboveground gold is either in jewelry form or held by investors in their safety deposit box or held by the central banks as reserves. Well it seems to me that, first of all, you're talking about a deficit. That deficit really does not come about through any investment purchasing of gold. It's really come about mainly through a demand for jewelry. We haven't seen what might happen to that deficit until we really start to see what happens when investment demand grows for the metal.

**JIM:** **This is a point, I think, that a lot of the bears on gold do not realize. This 1500-ton annual deficit each year is produced as a result of industrial demand. There has been very, very little investment demand for gold. I think, Ian, one thing that we do know is that gold is a barometer of the financial markets. It also is a barometer of fear. When you get that fear, when you get that panic, and you see the**

man on the street, the person that used to have his money in mutual funds, wanting something tangible to hold onto, or for example the poor people in these countries like Argentina, it's very hard for Americans to think of something like that happening here. If we do get investment demand, which I think is starting to form, certainly we've seen it in Japan right now, what could happen to the gold market? It seems to me it could literally explode.

**IAN:** Well, I think so. And that's why I think that silver may come to into its own as an investment rather than as a commodity, as a monetary investment. Because again, we are seeing that there really is such a limited supply. And actually, if anything, that supply is going to decrease because there are no new mines coming on the stream. So 2500 tons is a pittance to mine every year. If we get real investment demand, imagine a billion Chinese wanting to purchase an ounce or two a year. I mean, what kind of move will that make? Imagine the Chinese Central Bank deciding that with only has 3% of its foreign reserves in gold. It wants to increase that to the average that the European Central Bank has, which is 15% of its reserves in gold. Imagine the Japanese Central Bank doing the same thing, and then all the individuals who sort of see the horror that is befalling the economy and saying I need to at least own a little bit of gold. Imagine what that investment demand will do to price. It's going to be, I think, quite dramatic.

**JIM:** You might want to point out that, in terms of gold, even if we were to suddenly see a surge, a tremendous investment demand for gold, this is something that cannot be responded to by the miners in a very quick fashion. It takes anywhere from 5 sometimes 7 years to go out discover, get the permitting, put the infrastructure in place, and bring that gold to market in terms of production. I wonder if you might comment about that.

**IAN:** Gold is very, very difficult to mine. It's priced high because it's so difficult to find. Once you find it, as you say, it takes 5 to 7 years to put that find into production. It takes a long time to even find a mine. Let's use Newmont as an example. The company produces about 8 million ounces of gold a year from its mines. It has to replace 8 million ounces every year. And if it can't do that, it's going to have depleting reserves. So it has to find mines every year that will produce that 8 million ounces and that's a very, very difficult task for a company producing that amount of gold to do. That's one of the reasons why I tend to like the junior gold mining stocks because these are the gold finders. The big companies have basically depleted their geologists. So the big companies are relying on these juniors who have the exploration teams in place to find the gold for them.

**JIM:** This reminds me in many respects, Ian, to a similar situation that exists in the energy industry today with the big oil companies. You have an ExxonMobil that has \$200 billion in sales per year. There's no way a company that size can go out and find, at least to my knowledge, a new oil discovery that's going to help them replace those reserves that they're depleting right now. So you see an Exxon buying Mobil. You see a British Petroleum buying Amoco and Atlantic Richfield, a Chevron buy a Texaco, etc. Is this not the same thing that's happening in the mining industry? In other words the AngloGolds, the Newmonts -- the large producers? The only way that they could respond in replacing those reserves is to buy somebody else that already has them. That's number one and number two. Even if they did, if Newmont bought another company, that does not *add* to world gold supply.

**IAN:** No, absolutely not. Going back to your initial question, yes. That's exactly what they have to do. So we have started to see these mergers occurring. We're just now seeing one in Canada with Kinross and TVX and Echo Bay merging to become one entity. So they're happening. We've just seen Glamis take out Francisco Gold. These mergers are occurring. The producing companies are looking for ounces in the ground. Francisco Gold was an exploration company and had not put its reserves into production, but was taken out by Glamis Gold to get those reserves. There are other companies already, some junior mining companies, where there's gold in the ground that will become very attractive to the producing companies.

**JIM:** If you were to put your money in a safe spot, let's say that you take a look at the economic environment and you look at the financial markets and you say, "All right, I believe this. I want to get into gold. I want to keep some money in cash." How would you play your gold investments? Would you own the physical? Would you own the equities? Would you own a combination of both?

**IAN:** My feeling is you've got to own a combination of both. If the monetary system did break down, then at least you've got something that's been viewed as money for 5000 years. So, I want to own the physical, but you want to own the gold equities, I think, simply because they produce the physical and just in case gold is confiscated again. Normally equities tend to appreciate probably 3 times as much as the price of the physical gold appreciates. That would be a sort of a rule of thumb measure for people. Obviously some are going to do better than that and some are going to do worse.

**JIM:** So, if you were looking at investing in gold, you'd own a combination of the bullion and then you would own the equities? Would you diversify between the major producers and the juniors?

**IAN:** Yes. I think that's really up to an individual investor. It's where people have comfort. The juniors are obviously -- and in particular some of with the management and also the hedge books, where they're in place. the pie-in-the-sky dream juniors, really that's all they are -- a dream. So the juniors are much more speculative. I think that people who can't stomach the speculative stocks should not go into the juniors. These people should pick producing companies and look to those that you feel comfortable.

**JIM:** Looking back historically, I think it ought to be pointed out that these Bull Markets develop over a period of time. Just as winter takes time -- you know the Winter season is normally about 3 months -- as this Kondratieff Winter unfolds over a period of time. So if you were to be in gold and you see a Bull Market in gold, this Bull Market is going to develop over time. I wonder if you might comment a moment about the gold market itself. In 2001 the number one performing sector in the S&P was the gold mining index. We saw the AMEX Gold Index, the HUI, (the unhedged gold companies) put in a spectacular performance. Once again, in 2002, even though we've seen a pull back. As you and I are talking, the HUI is up 62% this year versus 30% declines for the market. Ian, talk about these cycles in gold. In other words, nothing goes straight up. It goes up. It pulls back. It goes up. It pulls back. It builds a base, and it goes up. I wonder if you might address that issue because there is some concern for those who have invested in gold who are becoming fearful when these "pullbacks" occur.

**IAN:** I think that in some ways those pullbacks are necessary because. I think we've gone too far too fast and we have to shake some of the weaker investors out. Really what we're doing in the gold market is the old adage -- we're climbing the wall of worry. In the initial stages of the Bull Market, basically, most people do not believe in the Bull. If you go back to the equity Bull Market, you can see that the real runoff and so on occurred between '98 and 2000. That's when the thing really, really took off. So it was only in the last 2 years of an 18-year Bull Market that you got the large majority, well all the investors, into the market who were going to invest in the market. It's the same with gold market. We're in the very initial stages of a Bull Market and I feel, fairly comfortable in making that prognostication simply because I know we're in the Kondratieff Winter and I know what gold did in the last Kondratieff Winter. But then if I look just simply at gold charts, I see things like the 50-week moving average, in some cases, hasn't even yet gone through the 200-week moving average. In other cases, it's already happened. So it means that, basically, that all those moving averages are on the bottom. And when you look at some of the gold charts, we've made wonderful bases like that have lasted for four or five years and have built these huge bases. That suggests to me that we've got considerable movement on the upside.

**JIM:** This is very similar, is it not, to the last Bull Market in gold? I'm thinking of the late '60's and the '70's when we had this credit period and the U.S. went off backing the dollar, off the Bretton Woods System, and we saw gold move up throughout the '70's. Really it was, and correct me if I'm wrong Ian, it was between 1978 and '80 really, the last two years, that the public participated in that Bull Market.

**IAN:** Yes it was and actually I've got a piece from a newspaper. I'm quite happy that my memory is still intact. I asked my son, who works with me, to go to the library. I remember that there was a piece in the Toronto Global Mail around January 1980 of people waiting for a bank to open so that they could buy gold. He was able to go to the library and find that piece and find that photograph that I could remember 20 years later. It was really only from about 1978 till 1980 that people really got out into the gold Bull Market.

**JIM:** Looking at this Winter period and bringing this to a conclusion, if you were to give advice to investors right now, knowing what you know of the credit cycle and studying the Long Wave, the Kondratieff Cycles that last over time, what financial advice would you give?

**IAN:** I think that given what I believe is going to happen to stocks -- and I think we're still in the initial stages of the Bear Market -- given what I believe is going to happen to stocks, I would be very wary about staying in the stock market. If we want to use a parallel again between 1929 and 1932, the Bear Market there basically took 90% off the Dow. If that were to happen again, it would mean the Dow would be around about 1200. There's no reason for me to believe that things this time will be that much different given that the Bull Market that preceded this Bear Market was 2 1/2 times bigger than the Bull Market of 1921-29. So, I'd be very wary about being in the stock market right now. Basically, I'd be wary about being in what I call any "paper investments" because they're all based on debts and that would extend to the real estate market. I'm not talking about people who own their homes. I'm talking about people who are invested in real estate and so on. And I'd be wary to some extent about being invested in the bond market because I think we will see interest rates rise as the demand for credit is far outstripping the available capital to supply that demand.

**JIM:** And would you recommend gold investing at this time?

**IAN:** Well, I'm only going back to my Cycle and suggesting that it did extremely well between 1929 and 1936. Really, I think that gold is the complete opposite to paper. So when paper performs well, there's no demand for gold. We've seen the great paper Bull Market in 1982 to 2000. There was absolutely no demand for gold. Gold was in a Bear Market all that time. We've seen between 1966 and 1980, when paper performed very poorly and the stock market performed very poorly, gold performed very well. So they tend to perform in opposite directions. I think that we now have a Bear Market in paper and therefore I think we will have a Bull Market in gold.

**JIM:** A final piece of advice... you write a newsletter called *The Long Wave Analyst* and obviously that is something that is only for your clients. You're a Canadian, so you can't make specific recommendations. But is there any other advice that you would give to individuals to help them through this? I can think of a particular book that both you and I have had the privilege to review.

**IAN:** Right. I think if anybody wants to get a third opinion on this, I would encourage them to get Bob Prechter's book [Conquering the Crash](#). I think it's an eye-opener. I'm very much in agreement with just about everything Bob says. He says it in a far better way than I could. I think it's something frightening, if you read it, but I think this period in the Kondratieff Cycle is a frightening period.

**JIM:** Finally, before I let you go, I did get an e-mail from a follower, his name's Richard. He wanted to ask you, in terms of your thoughts on how the Fed money expansion will impact this deflationary view. He cites others, such as [James Sinclair](#), [Marc Faber](#), who believe that as long as the Fed is printing money, that money will find its way into somewhere. I wonder if you might comment on that. If that money is going out of the economy due to collapsing debt, will it overwhelm the money being forced into the system by the Fed?

**IAN:** I think absolutely it will. We've got 32 trillion dollars of debt -- most of which has to be cleansed from the economy. Not only do we have that, but we have a stock market bubble. We've lost 7 trillion dollars in the stock market. Those are real losses. People have lost that money. We also have a real estate bubble that has yet to, I believe, deliver a loss and a large loss. So with those losses, it's absolutely impossible for the Federal Reserve to print money fast enough to overcome those kinds of losses. The other thing that you have to do, the Federal Reserve can print all the money it wants, it goes into the banking system and the banks have to want to lend it and the borrowers have to want to borrow it. So if that doesn't happen, and I don't believe it can happen, then there's no way that we can have inflation. I truly believe that with that huge amount of debt that overhangs the economy at this stage and only the beginnings of the unraveling of that debt, that debt is deflationary and therefore we are going into deflation, not inflation. The period in the Kondratieff Cycle for inflation is the Summer. The period for deflation in the Kondratieff Cycle is the Winter.

**JIM:** Is there any circumstance, in your opinion, in which we might have general deflation in the financial markets, general deflation in the economy, but some form of inflation in certain commodities?

**IAN:** I don't think so because what I believe is that the U.S. economy or the world economy is going to be as bad, as it was in the '30's, that the demand for commodities is going to drop precipitously. The U.S. is basically self-sufficient in all those commodities particularly if the demand drops. Even in oil, I think, the US is the second largest world producer of oil. So yes it imports now - about 50% of its requirements. When the economy goes into what I am confident will be the deflationary depression or the Kondratieff Winter, then the demand for oil will drop dramatically. People won't be driving SUVs. People won't be flying on airplanes. And because of that, I think that the U.S. could well become almost self-sufficient in oil. So I don't see that you will have inflation in commodities either.

**JIM:** Ian, one more final question. Is there anything on the horizon, anything that you would see, any event that could take place, anything that could happen that would change your opinion?

**IAN:** I've tried to think of that. The only thing that I can think, and I've said to other people, is I know that the central banks are going to fight this tooth-and-nail. They have to because it's really what they must perceive that is the deflationary depression that lies ahead. So they're going to do everything they can to fight it and I mean, I think one might say by fair means or foul, so that I don't know what kind of legal means will be implemented to sort of thwart what I see happening. But, in the end I don't see that there's any way that the governments of the world can offset the coming deflationary depression.

**JIM:** And I suppose history would agree with you because we certainly saw that in the '30's and in times past and also the great monetary bubbles of the 17<sup>th</sup> and 18<sup>th</sup> century. Ian, you have been very generous of your time and I'd like to thank you for joining us on Financial Sense Newshour.

If you're interested in learning more about the Kondratieff Wave Cycle, Ian Gordon has been gracious enough to make his newsletter *The Long Wave Analyst* available. But, I should point out, however, Ian does not solicit any business in the U.S. If you would like to get a copy of it, he has been gracious

enough to make it available. You can do so by e-mailing Ian directly. That is [ian\\_gordon@canaccord.com](mailto:ian_gordon@canaccord.com)

### [Ian Gordon Interview: Expert Page](#)

© 2002 Financial Sense™ is a Registered Trademark

**NOTICE:** This article may NOT be reproduced without the expressed, written permission of the author. [Email Author](#) Selective quotations are permissible as long as the author, Jim Puplava, and this web site are acknowledged through hyperlink to: [www.financialsense.com](http://www.financialsense.com)

### **CAVEAT EMPTOR "Buyer Beware"**

[Home](#) | [Broadcast](#) | [WrapUp](#) | [Top 10](#) | [Ask The Expert](#) | [Perspectives](#) | [Resource Center](#) | [Sitemap](#) | [About Us](#)

[Copyright](#) © 1997-2002 James J. Puplava

Financial Sense™ is a Registered Trademark  
P. O. Box 1269 Poway, CA 92074 USA 858.486.3939  
Please direct corrections and technical inquiries to  
[webmaster@financialsense.com](mailto:webmaster@financialsense.com)