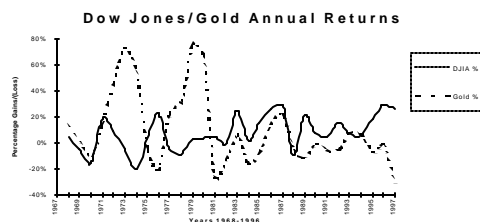


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James Cook Tells Why A Market Crash is 100% Certain

James R. Cook is the author of *Full Faith and Credit*, A Novel about Financial Collapse. This novel tells the story of an economic crisis and depression that Mr. Cook believes will happen. The novel has been favorably reviewed by major daily newspapers. Mr. Cook is a student of Austrian School economics and its important business cycle theory.

He is also the author of *The Start-up Entrepreneur*, a book that has been selling in the U.S. and Europe for fifteen years. The book is widely considered to be one of the best volumes ever written on starting a business.

Mr. Cook is the President of Investment Rarities Incorporated, a company he founded in 1973. This company has sold and delivered \$2 ½ billion in gold, silver and platinum.

In 1971 Mr. Cook started Crest of Miami, Inc., a drinking water company. He originated the concept of vending purified drinking water and built a company around it. Mr. Cook also founded the Home Energy Digest Magazine. He originated the Blue Book of Gun Values, America's principal price guide for collectible firearms. In 1975 he designed and built the "Sierra" wood burning stove.

Mr. Cook has appeared on CNN, the Larry King Show, the Regis Philbin Show and the Today Show.

Taylor: At this moment I have read about ½ of your new book titled *Full Faith & Credit*. It is highly enjoyable and very easy to read. I hope to finish it on my vacation. In the mean time, can you give our readers a preview of it?

Cook: It's a story about a financial collapse and how one successful speculator becomes rich because he saw that a crash would happen.

Taylor: Can you tell me if any of the characters in this novel represent anyone our readers might be familiar with?

Cook: Well, one chapter is about the Chairman of the Federal Reserve and other chapters may remind readers of personalities they know.

Taylor: We have been in a horrific bear market for metals that makes even the bear market for stocks during the Great Depression look tame. Since 1982, for example, gold compared to the

S&P 500 has lost 98% of its value. Might it not be time for us gold bugs to throw in the towel?

Cook: I don't think so. The U.S. has been pumping out money and credit to keep the boom going. The ultimate consequences will be good for gold.

Taylor: But we have enjoyed a booming stock market and robust uninterrupted growth in the U.S. economy since the deep recession ending in 1982. Might it not be possible that paper or fiat money actually does provide a better monetary system than a gold based monetary system and that we should just admit it?

Cook: It's hard to argue with the results until you begin to look a little deeper, then you see terrible problems. The U.S. economy is like a great and glorious sailing ship that's beautiful to behold. But if you climb on board and go below deck you will see dry rot so pervasive that you'll hurry to climb off in case it starts to sink while you're on board.

Taylor: Give us an example of dry rot?

Cook: Let's start with the savings rate. Savings are the cornerstone of civilization. We have notoriously weak savings. In some months of this year savings growth has been nonexistent. In the first half of this year we had ten dollars of credit growth for every dollar of savings growth.

Taylor: Wall Street claims that savings aren't important any more. Some investors think that stock investments are as good or better than savings.

Cook: I had hoped the drop in the NASDAQ this year would have cured people of that crazy idea. Does anybody seriously think that speculating on grotesquely overvalued tech stocks is the same as salting money away in the bank. Give me a break!

Taylor: Well, somebody must think so because the public has been pouring their money into stocks and mutual funds.

Cook: True enough. The most fish swim into the net at the top.

Taylor: But many of them are earning 30% a year or more. Some tech stocks have made individual investors wealthy.

Cook: One thing I've learned in my life is that it's hard to make money. It takes work, struggle, and pain to get ahead. What's going on now is hyperinflation of assets. It's easier to make money speculating than working. In the past five years if you owned assets like real estate, stocks, or collector's items, you made a lot of money. Salary and wages didn't cut it. The rate of gain in assets is accelerating. It's all a consequence of loose money and credit and there's a terrible price to pay for it.

Taylor: What's the price?

Cook: The greatest financial collapse and depression in history.

Taylor: What makes you think credit is so excessive?

Cook: For every dollar of growth in the economy there's four and a half-dollars of growth in credit.

Taylor: A country has to have lending and credit doesn't it?

Cook: Yes, but in a sensible system the amount of savings are all that's available to be loaned out. Interest rates balance the demand for credit and the supply of savings. When you create more money than available savings, you're inflating. You're creating more money. We do that to extremes in America.

Taylor: But we don't have serious price inflation do we?

Cook: As I mentioned, the money has been going into assets. The \$30 billion a month trade deficit also holds down price inflation. Imagine

if that \$30 billion we spend overseas were chasing goods and services at home.

Taylor: So you don't see much price inflation ahead?

Cook: If we use the CPI as an indicator it may not be serious for the short term. However, that's a flawed indicator. High energy costs will certainly have an impact and quite soon. It's when the dollar begins to decline that inflation could get out of control. Imports will be much more expensive. Eventually I see the dead opposite of today, a hyperinflationary depression. But remember, when we talk about inflation we're using consumer price index as a reference. It's a dubious indicator.

Taylor: In what way?

Cook: I think inflation is far worse than any of us believe. In 1980 I bought a Suburban. I think it was \$12,000. I bought one this spring for \$36,000. In twenty years it went up 200%. I call that inflation, but the government says I'm getting more bells and whistles than 20 years ago, so there's no inflation. The jack is certainly more complicated.

In 1980 I think my attorney was getting \$75.00 an hour. Now he gets \$275. I suppose that's not inflation because there are so many more regulations now and I'm getting a lawyer who knows more.

Taylor: Was that a joke?

Cook: Sorry.

Taylor: Let's talk about the new economy for awhile. What do you think about this idea of permanent prosperity?

Cook: They said the same thing in 1929. Keynes, for one, claimed there would never be another crash.

Taylor: They argue that it's because of the new technology, things like the Internet.

Cook: In 1929 they had autos, radio, aviation, electrification, telephones and many other breathtaking new technologies. It didn't stop a crash.

Taylor: So you think there could be a depression of that scale?

Cook: Absolutely. Bear in mind that back then the savings rate was quite high and we didn't have three trillion in foreign debt.

Taylor: But there' governments safeguards nowadays aren't there?

Cook: Sure and they could cripple the government. The government guarantees the mortgages, bank accounts, retirement plans and brokerage accounts, among other things. Then they've got all the social safety nets like unemployment. In other words, the government could have a huge bill to pay in a depression. At the same time their revenues from taxes could plummet and they still have almost 6 trillion of debt that's rolled over at shorter intervals. If rates go way up, look out. Even governments can fail. You'll have to finish reading my novel to see what happens.

Taylor: You mentioned foreign debt. I suppose that in the scenario you envision this could cause things to backfire on us?

Cook: Foreigners own around one-third of our treasuries, thirty percent of our corporate bonds and eight percent of our stocks. That's certainly enough to create havoc should they begin to withdraw from our market.

Taylor: What would cause that?

Cook: A drop in the dollar. I mean they have a chance to lose two ways. The currency for one, and falling markets the other. Eventually the huge trade deficit is going to take a toll on the dollar and our economy.

Taylor: Do you see this deficit improving?

Cook: No. Information technology, the lynchpin of our new economy, doesn't seem to export well. It's not helping our balance of payment much.

Taylor: Why?

Cook: Cultural reasons and piracy. They steal our technology. It's easy to do. Microsoft winds up competing with their own products at a price disadvantage.

Taylor: That stinks! Well, you're talking about exports. Maybe we'll import less and cure the trade deficit in that way.

Cook: Eventually we will. When the dollar crashes or when the economy slumps and the consumption boom ends. But, this trade deficit is symptomatic of a much greater problem.

Taylor: What's that?

Cook: The Asians have concentrated on manufacturing. Japan has especially focused on making the tools and equipment that make the tools for manufacturing. They have virtually insurmountable leads in manufacturing. Look at electronics. They own it. Almost every cell phone is made by the Japanese or has Japanese parts. Japanese wages are now 40% higher than ours are.

Taylor: Most of these stock market bulls never talk about this do they?

Cook: No. Everybody's hung up on this postindustrial information technology. In other words, we don't need manufacturing. We are beyond that because of the Internet and telecommunications. If they're wrong we're going to be a lot poorer for it. The trade balance is one indicator.

Taylor: Most people hear about the balance of payment but they don't really understand why it's a threat to us. Could you try to explain it in a way everybody understands?

Cook: I'll try. Let's say you trade cars with your neighbor. You owe \$2,000 to boot on the deal. Where do you get the money? It's either from your savings or you have to borrow it. In other words, the trade deficit is made up of American's savings or money they borrowed. Since you can't draw down savings or borrow money forever, eventually something has to give.

Taylor: What would that be?

Cook: The dollar will have to go down far enough to discourage imports, in other words make them too expensive. At the same time that makes our exports more competitive.

Taylor: Sounds simple enough.

Cook: It's going to cause a lot of pain. A weak dollar may cause the whole house of cards to collapse as foreigners flee our markets. One other nasty problem is the extent foreigners are buying up our corporations. There are just so many ramifications from a loose money and credit policy.

Taylor: Go on.

Cook: Well, it's caused a tremendous consumer-buying boom. As a consequence, capital goes to build malls, super-stores and shopping centers rather than new plants and equipment. We're eating the seed corn.

Taylor: Sure, but you may not be factoring in all the positives from information technology. The markets love these companies. How can you be so far out of step with all these market pros?

Cook: The markets love these companies too much. The top forty NASDAQ companies in terms of market cap are selling at 230 times earnings. The benchmark used to be 10 times earnings. Under ten you bought, over ten you sold.

Taylor: What should they be?

Cook: I don't know exactly. But we're placing too much emphasis on what those companies will be able to accomplish. Yes, they're great, but we also need manufacturing. Higher wage levels in foreign countries prove that. Tech companies don't spread the wealth very well either.

Taylor: What does that mean?

Cook: The best and the brightest get extremely high wages. The blue-collar workers tend to be left out. Manufacturing on the other hand, provides higher wages for less skilled workers than high tech.

Taylor: OK, OK, but these companies aren't selling at these high multiples because they are backward. They are cutting edge and they hold the promise of huge advances in the future.

Cook: It's hard to argue with that. All I'm saying is that they're not the whole enchilada. And at today's valuations they have the chance to do a very nasty number on the wealth of America. If they ever go back to 30 times earnings they will be the Stalingrad of the American economy.

Taylor: That's an eighty-percent drop. You seriously think prices could correct to that extent?

Cook: In 1929 RCA was \$400 or \$500 a share. I think it hit \$3.00 in the 1930's. Bear markets can destroy credit money in a hurry.

Taylor: Let's say we have a market crash or a dollar drop that brings on a crisis. What are the areas that would get hurt the worst?

Cook: It's a proposition of the Austrian School of Economics that the most pain will be felt in the areas of the greatest excesses. In my mind these are the margin and leveraging extremes found in the stock market, residential real estate with little down payment and highly inflated home values, and consumer credit with extensive

bank borrowing and credit card debt. All will collapse in the crisis I envision.

Taylor: What would happen then?

Cook: In my novel there's a horrible depression. People lose their homes. Bankruptcies go through the roof. Stocks become pariahs and lenders fail. Bondholders get killed and high-yield bond funds freeze up and trap the investors. They can't get out. There are riots in brokerage firms. It isn't pretty.

Taylor: You're serious?

Cook: I don't claim to know the future. I wrote this novel because it's what I think is going to happen. It's my opinion.

Taylor: You're in the gold business. It sounds like a gold dealer's dream come true, wouldn't you say?

Cook: I suppose.

Taylor: Is that why you think this way?

Cook: Quite the contrary. I started my company 30 years ago. We had a few good years but by in large it's been a lousy business. I'm a good businessman. I could have made more money doing something else.

Taylor: So why didn't you?

Cook: I think it was Ayn Rand that said, "re-examine your premises." Whenever I thought about getting out of gold and silver I'd go back to reading "Human Action," by Ludwig von Mises. Then I'd read some of Mises other books. It would refocus my thinking on the terrible dilemma that easy money and credit have created for this nation. I was heavily influenced by Henry Hazlitt, Hans Sennholz, Murray Rothbard, Jerome Smith, Harry Browne and Leonard Read. You can see some of their thinking on our website www.gloomdoom.com. None of them would ever give up on gold and endorse dollar inflating.

Taylor: That's an impressive group.

Cook: I also need to mention the Nobel prize winner Friedrich Hayek. He was Mises' foremost student and a top thinker at the London School of Economics. Twenty years ago I was attending a monetary conference and strolling through an area that was set-aside for coffee breaks and refreshments. Who was sitting alone at a table but Hayek. I introduced myself and asked if I could join him. He smiled broadly and told me to sit down. We chatted amicably and I asked him about Mises. He was exceedingly complimentary about his mentor. He was also quite positive about gold. I'll never forget this pleasing old gentleman and how polite he was to me.

Taylor: So you stayed a fixture in the gold business. How is business these days?

Cook: I was afraid you'd ask. It's bad. We've not selling much gold. Business is off 75% from last year.

Taylor: Why is that?

Cook: Y2K. Last year people were buying because of the millennium thing. It didn't happen and many gold buyers are disillusioned.

Taylor: So they've quit buying?

Cook: To some extent. Unfortunately, a lot of gold dealers were beating the drum for Y2K and they were wrong about it. That's caused the customers to doubt their other arguments for buying gold.

Taylor: Were you a big Y2K proponent?

Cook: Not at all. I mentioned it in my newsletter only once. In fact, I told my sales staff in a sales meeting to go slow on Y2K. Of course, some of them wouldn't listen. They were sure it would be a big problem. We had to monitor them closely, and I even had to suspend my top salesman. Our main Y2K enthusiasts left

soon after the first of the year. They couldn't face up to being wrong.

Taylor: So are you still bullish on gold?

Cook: Yes, because it will offset the losses to the dollar.

Taylor: That's all?

Cook: Well, in my novel it rises to \$2,000 an ounce. In the kind of totally devastating financial crash I envision, gold is the best and final resort. But nowadays, in terms of profit potential, I'm advocating silver and I must say we are selling quite a bit of silver now.

Taylor: Why?

Cook: The large supply of silver that overhung the market for so many years is gone. Industrial demand is close to a billion ounces a year. Silver is used in a thousand different ways and there's a huge short interest. Mining production is dropping while demand rises. I think silver could explode upward and at \$5.00 an ounce it seems cheap.

Taylor: Interesting. What caused you to suddenly become a silver bull?

Cook: There's a commodities analyst in Florida by the name of Ted Butler who's been studying the silver market for fifteen years. He's an expert on commodity futures and he's pointed out some profound aspects of silver leasing and the big short positions in silver. I believe his work is incredibly bullish.

Taylor: Is it available? I'd like to read it.

Cook: You can visit his website at www.butlerresearch.com.

Taylor: OK, we'll check it out. So, you're advocating silver. What kind of silver?

Cook: Kennedy Halfs, 90% silver coin bags of pre-1964 coins with a \$1,000 face value, 100-ounce bars, silver dollars and silver Eagles.

Taylor: No rare coins?

Cook: Only if you're a hobbyist and want to become a coin expert. Otherwise we say stick to the items reasonably close to the bullion value. Also avoid the highly promoted collector items.

Taylor: For example?

Cook: Things like treasure coins or newly discovered hoards of high-grade coins. For example, a couple years ago a few dealers sold high-grade St. Gaudens Double Eagles from a major bank hoard. They sold for around \$3,000 each. I checked the bid on them today. It's \$1,200.

Taylor: Ouch! Maybe they'll recover.

Cook: Most assets are going to come crashing down in the coming crisis. Gold and silver will buck the trend.

Taylor: Will anything good come of this big crash you predict?

Cook: The restaurants won't be so crowded. You'll be able to hear again.

Taylor: Anything else about the aftermath of a crash?

Cook: I know your views on the sorry state of our culture and I agree. That's a subject for a whole other interview. A lot of that will change for the better. There's going to be a lot of pain. I worry about the political outcome. We could see outrageous taxes, currency controls, asset confiscation, value-added taxes and other gross abridgements of our freedom. It will be high noon for redistribution. The money won't be there. Those who get money from the government will scream long and loud. If the government raises taxes in that environment to pay the entitlements it will be some kind of

depression. Hopefully we will be allowed to hold on to some of what we earn. We're going to need a statesman at the helm.

Taylor: Interesting. Anything else you can add to make your case for a crash?

Cook: Corporate debt. There's a lot of financial engineering going on. Companies borrow money by selling their bonds and use the proceeds to buy back their stocks. It helps make their stock go up and management can exercise their juicy stock options. The money they borrow should be going into new plants and equipment. That's just one example of many kinds of short-term fixes geared to help earnings.

Taylor: Anything else?

Cook: Derivatives. Supposedly they now exceed 100 trillion. Many of them are high-leverage speculations while others hedge interest rate risk. You can have problems with mismatched swaps or hedges, counterparty failures or big naked positions. I wouldn't be surprised to see some egomaniac pull the trigger on a loony speculation that causes a major entity to collapse. It could be the beginning of something quite ugly.

Taylor: We've covered a lot of bases. I've saved the ultimate question for last. When will the collapse of our debt-laden economy occur?

Cook: Quite soon I think. For one thing, inflation makes it harder to expand money and credit and to push interest rates artificially low. If inflation gets too bad people dump the money at a faster and faster rate and you get hyperinflation. The monetary authorities don't want to go there. On the other hand, the wealth effect from stock gains is dissipating and savings may actually begin to rise now. This will quickly choke off economic growth. I think you're going to be surprised at how fast a slowdown comes on. Then you have all that debt to repay, all those unsustainable businesses to liquidate and the dollar heading south.

Taylor: It seems plausible enough. What should people do?

Cook: Put 90% in the bank now. Get out of everything else. Put 10% in gold and silver. Then watch economic events closely. If things get nasty, keep shifting more and more into the metals.

Taylor: And I suppose you want everyone to read your book?

Cook: That's right. "Full Faith and Credit, A Novel about Financial Collapse, is available at Barnes and Noble stores and Amazon.com among others. It's getting great reviews. Your readers will enjoy it.

Taylor: What about your company? How can our readers get all the free reports and newsletters on silver and your gold book.

Cook: They can call us at 1-800-328-1860.

Taylor: Thanks James for the interview. I truly hope you are wrong about your forecast of doom. But if you are right, and I am afraid you are, I know our readers will be in pretty good shape because unlike most other investors, they hold positions in the precious metals as well as precious metals shares. In closing, I would like to say that I consider you a friend and wish you and your family the very best.

Cook: Thank you.