New York State Attorney General Eliot Spitzer has threatened to prosecute Merrill Lynch and its analysts for knowingly pumping and dumping equities that were bad investments. Analysts allegedly were extolling the virtues of investing in shares to the public while at the same time using the company’s internal email system to let their colleagues know how terrible they REALLY thought these investments were. Why did these analysts lie to the public? It’s very simple. They wanted to keep their jobs. If they had spoken the truth, Merrill Lynch most certainly would have fired them.

As dishonorably as the Merrill Lynch analysts may have acted, I find it hard to argue that the behavior of Alan Greenspan, Chairman of the Federal Reserve Bank is any more honorable. How can I make such a bold statement about America’s beloved Fed Chairman? Let me answer that simply by asking the following question. If an American citizen knowingly set out to destroy the monetary system of the United States, would you consider that a serious offense? And if that same citizen understood that his actions would inevitably lead to global and domestic economic instability and a gradual if not sudden overthrow of the Constitution of the United States, would you not consider that to be an offense at least as serious as those committed by the Merrill Lynch analysts? I would! Which is why I have headed this monthly issue “The Fish Rots from the Head Down.” I don’t know for sure if the head of a fish is the first part of a fish to spoil. But that saying, which is reportedly common in some 36 European languages makes a point. How can you expect the citizens of a country to behave morally if its leaders don’t set the example by speaking the truth and living in a truthful manner?

So far as the integrity and stability of our monetary system is concerned, no visible person on the face of the earth has more input into that than Alan Greenspan has. Regrettably, an article that he wrote in 1966 titled “Gold & Economic Freedom” demonstrates that he knows that by debasing the U.S. dollar as he has been doing on behalf of the Fed he is leading our nation toward economic instability in the long run. Moreover, he also knows that this activity is leading toward a gradual and perhaps sudden overthrow of the U.S. Constitution and the economic freedom it sought to make the birthright of every American. In other words, with respect to the amount of harm done to Americans, the self serving dishonest activities of Merrill Lynch analysts pales compared to those of Mr. Greenspan.

Might it be that Mr. Greenspan has simply had a change of views since he authored his 1966 article? Based on what he told Congressman Ron Paul back in February 2001, we don’t think so. Following a House Banking Committee hearing, Congressman Paul asked the Chairman to autograph a copy of Greenspan’s 1966 article, “Gold & Economic Freedom.” While Mr. Greenspan was signing the article, Congressman Paul asked him if there was anything he would change in the article were he to write it today. According to the Congressman, Greenspan told him, “I have recently read the article again, and I would not change a word.”

How does Mr. Greenspan justify his actions when he knows them to be so destructive? Dr. Larry Parks (www.fame.org) has reportedly confronted Greenspan with this very question. According to Larry, Greenspan said that he does not argue his pro gold views with his colleagues at the Fed because his minority views would simply be overruled. So, for the sake of job security and perhaps near term adulation, Mr. Greenspan knowingly carries out actions that are destructive to the American people for the benefit of an non-elected faceless group of men who control the Fed. What a good “German” Mr. Greenspan is!

Setting aside for a moment the issue of being loyal to your bosses, I would like someone to explain to me how the behavior of analysts at Merrill Lynch who face prosecution is more egregious than that of Mr. Greenspan who is still widely admired in America. In both instances, truth has been held hostage to personal career motivation. In the case of Mr. Greenspan, he is pleasing the privileged elite who through a legalized counterfeiting process line their own pockets and consolidate political
An almost hysterical antagonism toward the gold standard is one issue that unites statists of all persuasions. They seem to sense that money should be convertible into, gold. If all goods and services were to be paid for in gold, large payments would be difficult to execute, and this would tend to limit the extent of a society's division of labor and specialization. Thus a logical extension of the creation of a medium of exchange, is the development of a banking system and credit instruments (bank notes and deposits) which act as a substitute for, but are superior to, barter.

Whether the single medium is gold, silver, seashells, cattle or tobacco is optional, depending on the context and development of a given economy. In fact, all have been employed, at various times, as media of exchange. Even in the present century, two major commodities, gold and silver, have been used as international media of exchange, with gold becoming the predominant one. Gold, having both artistic and functional uses and being relatively scarce, has always been considered a luxury good. It is homogeneous and divisible.

In the early stages of a developing money economy, several media of exchange might be used, since a wide variety of commodities would fulfill the foregoing conditions. However, one of the commodities will gradually displace all others, by being more widely acceptable. Preferences on what to hold as a store of value, will shift to the most widely accepted commodities; for instance, an ounce of gold is worth a half-ton of pig iron.

In order to understand the source of their antagonism, it is necessary first to understand the specific role of gold in a fee society.

Money is the common denominator of all economic transactions. It is that commodity which serves as a medium of exchange, is universally acceptable to all participants in an exchange economy as payment for their goods or services, and can, therefore, be used as a standard of market value and as a store of value, i.e., as a means of saving.

The existence of such a commodity is a precondition of a division of labor economy. If men did not have some commodity of objective value which was generally acceptable as money, they would have to resort to primitive barter or be forced to live on self-sufficient farms and forego the inestimable advantages of specialization. If we had no means to store value, i.e., to save, neither long-range planning nor exchange would be possible.

What medium of exchange will be acceptable to all participants in an economy is not determined arbitrarily. First, the medium of exchange should be durable. In a primitive society of meager wealth, wheat might be sufficient durable to serve as a medium, since all exchanges would occur only during and immediately after the harvest, leaving no value-surplus to store. But where store-of-value considerations are important, as they are in richer, more civilized societies, the medium of exchange must be a durable commodity, usually a metal. A metal is generally chosen because it is homogeneous and divisible: every unit is the same as every other and it can be blended or formed in any quantity. Precious jewels, for example, are neither homogeneous nor divisible.

More important, the commodity chosen as a medium must be a luxury. Human desires for luxuries are unlimited and, therefore, luxury goods are always in demand and will always be acceptable. Wheat is a luxury in underfed civilizations, but not in a prosperous society. Cigarettes ordinarily would not serve as money, but they did in post-World War II Europe where they were considered a luxury. The term “luxury good” implies scarcity and high unit value. Having a high unit value, such a good is easily portable; for instance, an ounce of gold is worth a half-ton of pig iron.

In the case of Merrill Lynch analysts, they were knowingly selling inferior equity products to investors while falsely proclaiming the merits of those investments. I should think it is only a matter of magnitude that separates the deception of Mr. Greenspan from that of Merrill Lynch analysts.

Merrill Lynch damaged individual clients. Greenspan is knowingly and willingly contributing to a process of destroying the entire moral and economic fiber of America. If one acts in a manner that he believes will result in economic instability and the destruction of the Constitution of the United States, can that behavior be viewed as anything but treasonous? At least that is my view. For the benefit of subscribers who may never have read Greenspan’s remarkable 1966 article “Gold & Economic Freedom” we are publishing it below. It initially appeared in Volume 5, Number 7 of “The Objectivist” newsletter, edited by Ayn Rand and Nathaniel Branden. As they say at Fox News, “We report, you decide.”

Gold & Economic Freedom

By

Alan Greenspan

An almost hysterical antagonism toward the gold standard is one issue that unites statists of all persuasions. They seem to sense - perhaps more clearly and subtly than many consistent defenders of laissez – faire - that gold and economic freedom are inseparable, that the gold standard is an instrument of laissez-faire and that each implies and requires the other.

In order to understand the source of their antagonism, it is necessary first to understand the specific role of gold in a fee society.

The Objectivist
A free banking system based on gold is able to extend credit and thus to create bank notes (currency) and deposits, according to the production requirements of the economy. Individual owners of gold are induced, by payments of interest, to deposit their gold in a bank (against which they can draw checks). But since it is rarely the case that all depositors want to withdraw all their gold at the same time, the banker need keep only a fraction of his total deposits in gold as reserves. This enables the banker to loan out more than the amount of his gold deposits (which means that he holds claims to gold rather than gold as security for his deposits). But the amount of loans which he can afford to make is not arbitrary: he has to gauge it in relation to his reserves and to the status of his investments.

When banks loan money to finance productive and profitable endeavors, the loans are paid off rapidly and bank credit continues to be generally available. But when the business ventures financed by bank credit are less profitable and slow to pay off, bankers soon find that their loans outstanding are excessive relative to their gold reserves, and they begin to curtail new lending, usually by charging higher interest rates. This tends to restrict the financing of new ventures and requires the existing borrowers to improve their profitability before they can obtain credit for further expansion. Thus, under the gold standard, a free banking system stands as the protector of an economy’s stability and balanced growth.

When gold is accepted as the medium of exchange by most or all nations, an unhampered free international gold standard serves to foster a worldwide division of labor and the broadest international trade. Even though the units of exchange (the dollar, the pound, the franc, etc.) differ from country to country, when all are defined in terms of gold the economies of the different countries act as one - so long as there are no restraints on trade or on the movement of capital. Credit, interest rates and prices tend to follow similar patterns in all countries. For example, if banks in one country extend credit too liberally, interest rates in that country will tend to fall, inducing depositors to shift their gold to higher-interest paying banks in other countries. This will immediately cause a shortage of bank reserves in the “easy money” country, inducing tighter credit standards and a return to competitively higher interest rates again.

A fully free banking system and fully consistent gold standard have not as yet been achieved. But prior to World War I, the banking system in the United States (and in most of the world) was based on gold; and even though governments intervened occasionally, banking was more free than controlled. Periodically, as a result of overly rapid credit expansion, banks became loaned up to the limit of their gold reserves, interest rates rose sharply, new credit was cut off and the economy went into a sharp, but short-lived recession. (Compared with the depressions of 1920 and 1932, the pre-World War I business declines were mild indeed) It was limited gold reserves that stopped the unbalanced expansions of business activity, before they could develop into the post-World War I type of disaster. The readjustment periods were short and the economies quickly reestablished a sound basis to resume expansion.

But the process of cure was misdiagnosed as the disease: if shortage of bank reserves was causing a business decline - argued economic interventionists - why not find a way of supplying increased reserves to the banks so they never need be short! If banks can continue to loan money indefinitely - it was claimed - there need never be any slumps in business. And so the Federal Reserve System was organized in 1913. It consisted of twelve regional Federal Reserve banks nominally owned by private bankers, but in fact government sponsored, controlled and supported. Credit extended by these banks is in practice (though not legally) backed by the taxing power of the federal government. Technically, we remained on the gold standard; individuals were still free to own gold, and gold continued to be used as bank reserves. But now, in addition to gold, credit extended by the Federal Reserve banks (“paper” reserves) could serve as legal tender to pay depositors.

When business in the United States underwent a mild contraction in 1927, the Federal Reserve created more paper reserves in the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve’s attempt to assist Great Britain, who had been losing gold to us because the Bank of England refused to allow interest rates to rise when the hope of forestalling any possible bank reserve shortage. More disastrous, however, was the Federal Reserve’s attempt to assist Great Britain, who had been losing gold to us because the Bank of England refused to allow interest rates to rise when the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenchment and consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world wide series of bank failures. The world economies plunged into the Great Depression of the 1930’s.

The “Fed” succeeded: it stopped the gold loss, but it nearly destroyed the economies of the world in the process. The excess credit which the Fed pumped into the economy spilled over into the stock market - triggering a fantastic speculative boom. Belatedly, Federal Reserve officials attempted to stop up the excess reserves and finally succeeded in braking the boom. But it was too late: By 1929 the speculative imbalances had become so overwhelming that the attempt precipitated a sharp retrenchment and consequent demoralizing of business confidence. As a result, the American economy collapsed. Great Britain fared even worse, and rather than absorb the full consequences of her previous folly, she abandoned the gold standard completely in 1931, tearing asunder what remained of the fabric of confidence and inducing a world wide series of bank failures. The world economies plunged into the Great Depression of the 1930’s.

With a logic reminiscent of a generation earlier, statists argued that the gold standards was largely to blame for the credit debacle which led to the Great Depression. If the gold standard had not existed, they argued, Britain’s abandonment of gold payments in 1931 would not have caused the failure of banks all voter the world. (The irony was that since 1913, we had been, not on a gold standard, but on what may be termed “a mixed gold standard,” yet it is gold that took the blame.)
But the opposition to the gold standard in any form - from a growing number of welfare-state advocates - was prompted by a much subtler insight: the realization that the gold standard is incompatible with chronic deficit spending (the hallmark of the welfare state). Stripped of its academic jargon, the welfare state is nothing more than a mechanism by which governments confiscate the wealth of the productive members of a society to support a wide variety of welfare schemes. A substantial part of the confiscation is effected by taxation. But the welfare statists were quick to recognize that if they wished to retain political power, the amount of taxation had to be limited and they had to resort to programs of massive deficit spending, i.e., they had to borrow money, by issuing government bonds, to finance welfare expenditures on a large scale.

Under a gold standard, the amount of credit that an economy can support is determined by the economy’s tangible assets, since every credit instrument is ultimately a claim on some tangible asset. But government bonds are not backed by tangible wealth, only by the government’s promise to pay out of future tax revenues, and cannot easily be absorbed by the financial markets. A large volume of new government bonds can be sold to the public only at progressively higher interest rates. Thus, government deficit spending under a gold standard is severely limited.

The abandonment of the gold standard made it possible for the welfare statists to use the banking systems a means to an unlimited expansion of credit. They have created paper reserves in the form of government bonds which – through a complex series of steps - the banks accept in place of tangible assets and treat as if they were an actual deposit, i.e., as the equivalent of what was formerly a deposit of gold. The holder of a government bond or of a bank deposit created by paper reserves believes that he has a valid claim on a real asset. But the fact is that there are now more claims outstanding than real assets.

The law of supply and demand is not to be conned. As the supply of money (of claims) increases relative to the supply of tangible assets in the economy, prices must eventually rise. Thus the earnings saved by the productive members of the society lose value in terms of goods. When the economy’s books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes with the money proceeds of the government bonds financed by bank credit expansion.

In the absence of the gold standard, there is no way to protect savings from confiscation through inflation. There is no safe store of value. If there were, the government would have to make its holding illegal, as was done in the case of gold. If everyone decided, for example, to convert all their bank deposits to silver or copper or any other good, and there after declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.

This is the shabby secret of the welfare statists’ tirades against gold. Deficit spending is simply a scheme for the “hidden” confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists’ antagonism toward the gold standard. THE END

A “Fountainhead,” Mr. Greenspan is not!

During the 1960’s and 1970’s, Alan Greenspan was a colleague and friend of the great objectivist philosopher and novelist, Ayn Rand. One of Ms. Rand’s classic novels was The Fountainhead. In this novel, the hero is Howard Roark, a brilliant young architect whose revolutionary building designs lead him to wage a desperate battle against his colleagues and society. At great cost to him, both in terms of his friendships and financial standing, Mr. Roark refused to submit to the establishment and compromise his beliefs and his standards. Mr. Roark was indeed an individual who was willing to pay a high price to retain his integrity rather than play the role of a whore for the sake of fame and fortune. For those of us who believe in individualism, not to mention the notion of good and evil and right and wrong, Mr. Roark was indeed a huge hero.

It is indeed an irony that Alan Greenspan, who was himself such a great objectivist and friend of Ayn Rand and her inner circle of New York intellectuals, has chosen to sell his soul for the sake of personal gain at the expense of our nation. Had Mr. Greenspan had been willing to stand tall and proud during the 1990’s for the views he claims to retain, rather than using his wit and wisdom to enable the collectivist Federal Reserve to lead America into the greatest financial bubble in history, perhaps we would not now face such awful political and economic prospects.

Following are some key points Greenspan made in the above article that are highly relevant to U.S. markets and our economy in 2002:

1. Attributes of money are: a) durability, b) store of value, c) homogeneous and divisible, and d) a luxury. The dollar has seemed to be durable through the 1990’s, though its durability is now being called into question given its recent weakness in the international markets. It is homogeneous but it is not a very good store of value because since the creation of the Fed, it has lost most of its value. It is certainly not a luxury, since it is a merely ink on paper or electronic digits in a computer.

2. Lending can go on in a gold backed system, but lenders cannot create endless amounts of money and credit because they have to be mindful of: a) the quality of their loan portfolio and b) gold
reserves. Because of this need to be careful in order to remain solvent, a banker who is restricted by the discipline of gold, is involved in a monetary system that protects an economy’s stability and balanced growth. But the dollar being detached from gold can be lent out in endless quantities. That freedom has led to enormous growth in the supply of U.S. dollars which in turn has led to the greatest financial bubble in our history. As a result, we now face a most unstable economic future.

3. The excuse for instituting the Federal Reserve in 1913 was to ensure a more stable banking environment. The reasoning was that if the central bank were not subjected to the discipline of limited gold reserves, it could keep on lending and thereby eliminate the business cycle. But as Mr. Greenspan observed, “Compared with the Depressions of 1920 and 1932, the pre-World War I business declines were mild indeed.” Yet in spite of that view which he still holds, Mr. Greenspan has debasing the U.S. dollar more than any other Fed Chairman in history. The supply of U.S. dollars (and therefore debt) has been growing at an exponential clip that most assuredly is leading America to its economic destruction, just as Mr. Greenspan suggested it would. Following is a chart of M-3. Note the enormous rise in M-3 following the 1971 closing of the gold window by Richard Nixon. Then note also the explosive growth of money coinciding with the rigging of the gold markets by the Clinton Administration and Mr. Greenspan starting in 1994.

In fact Greenspan makes the point that in a socialist system such as the one we have in America, the government cannot afford to allow its citizens to protect their personal savings from confiscation through monetary inflation. “If everyone decided, for example to convert all their bank deposits to silver or copper or any other good, and thereafter declined to accept checks as payment for goods, bank deposits would lose their purchasing power and government-created bank credit would be worthless as a claim on goods. The financial policy of the welfare state requires that there be no way for the owners of wealth to protect themselves.”

So our socialist leaders have removed gold from our money system. Yet people have still managed to convert paper money to gold to preserve wealth. This tendency is now most pronounced in Japan where Japanese people are pulling a substantial amount of their Japanese Yen and other currencies out of the banks and buying gold which they are hoarding at home. The same process has not really yet begun in the U.S. but it will as the U.S. banking system begins to takes its hit.

I have no doubt that what Mr. Greenspan says is true. The socialist agenda of our government and the ability of individuals to protect their wealth by opting out of the paper money system are not compatible. Yet, this showdown is exactly what I believe is headed our way. Many attempts, like the following have been carried out to convince people not to hold gold as money by the clandestine socialist order of the statists (collectivists) in America who are also striving to implement a one world government. 1) Roosevelt made ownership illegal under threat of jail and heavy fines. 2) The IMF disallows member countries to convert their own currencies into gold. 3) Johnson tried to dissuade investors form opting out of the fiat money system into gold by selling huge amounts of gold in the late 1960’s. 4) Nixon closed the gold window in 1971. 5) Clinton with the help of Greenspan, the Bank of England, the BIS, the N.Y. Fed, Goldman Sachs, JP Morgan Chase, Deutsche Bank and Citibank engaged in the gold-carry trade to dishord huge amounts of gold since 1994. Yet, as it has through
thousands of years of history, gold is proudly rising in value again. Gold is honest and ultimately indestructible money. It is superior to all other kinds of money ever used by man. To our collectivist politicians and bankers, gold is about as bad for their business as a nun in a whore house is bad for the prostitution trade. Indeed there is a great deal in common between these two illicit behaviors. Gold is hated by evil collectivist because it checks their dishonesty and it discourages their plans for disguised theft via legalized counterfeit operations.

So, make no mistake. What is at stake here is much more significant than profits from higher gold and gold share prices, important as those are to us. In fact, we are on a collision course with the enemies of Freedom. The same people who day after day refuse to allow GATA’s allegations about the gold markets to be aired on CNBC and in all the major press, have an agenda that is contrary to that of our Founding Fathers. That is why I said prior to last month’s interview with Larry Parks that “...it is becoming increasingly clear that the same kinds of tyranny spoken of by the authors of the Declaration of Independence are rearing their ugly heads once again in America.”

How did America go wrong with respect to its current dishonest monetary policy? For answers to that question, we plan to interview G. Edward Griffin, author of “The Creature from Jekyll Island” in the July 2002 issue of J Taylor’s Gold & Technology Stocks. What you will learn from our interview is that those who forced their collectivist or statist views on America share the same views as the Marxists’ Evil Empire that President Regan believed we had overcome as the Germans tore down the wall between East and West Germany. Like a bad dream or a horror movie, virulent collectivists have continued to clandestinely undermine the demise of our Constitution which was in support of individualism as opposed to the collectivist aims of those who really run the Fed. These disguised Marxists have infiltrated our institutions of higher learning, churches and media for the purpose of destroying those sacred principles our Founding Fathers believed were ordained as God given rights to people everywhere.

Yet the desire for freedom and truth runs deep in the human soul. And the gold markets are beginning now to reveal the lies and distortions of the past. The collectivists counter by attempting to manipulate Americans through mind control, to keep their wealth denominated in paper, less they not be able to fund their collectivist programs. That after all is what the whole Clinton strong dollar-gold manipulation policy starting in 1994 was all about. It was wildly successful in promoting the greatest financial bubble of all times. A portion of that bubble has now been broken as we head toward what Ian Gordon has labeled the Kondratieff winter. But now the Piper must be paid. As this most unpleasant period moves forward, all we can do is use what democratic freedoms we have left to fight for what is our God given rights and also to petition our Creator in prayer so that we may prevail over the evils of collectivism.

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**Monthly GATA Review**

With the early stages of a bull market in gold underway, investors are becoming more receptive to the great civil rights cause of GATA. When son Scott and I recently visited Congressman Ron Paul in Washington, he confessed that he was not terribly hopeful that either GATA or Reginald Howe through his lawsuit would liberate the American people from the tyranny that gold market intervention is leading us into. However, he emphasized that their work was vitally important in educating Americans toward an understanding of how this intervention has lead to an instability in the American markets and in turn how that is threatening our freedom and liberty. Congressman Paul is absolutely right. Unless someone other than those responsible for the demise of our political and economic system are permitted to analyze and explain what happened, freedom and liberty for which our Founding Fathers risked their lives, will never be known by our grandchildren.

Through its extensive research, GATA and affiliated organizations such as this newsletter and others like www.fame.org, www.goldensextent.com, www.goldmoney.com and a number of others, has been demonstrating how the rigging of the gold market was used to create the greatest financial bubble in history. Now as we begin to face the painful correction of these Clintonian-induced market distortions and excesses, a body of evidence for laying proper blame has been complied and centralized by GATA. To people like Bill Murphy, Dr. Larry Parks, Congressman Ron Paul, M.D., James Turk, Frank Veneroso and the courageous attorney Reginald Howe who took on 16 of the most powerful lawyers in the world, we shall remain eternally grateful, no matter whether the good guys or
bad guys ultimately win this earthly battle. What we do know is that the bad guys are using the Federal Reserve and the distortion of the gold markets as a means of robbing those who produce wealth. Can there be any doubt in the minds of God fearing people everywhere, which side will ultimately win?

Our Model Portfolio is up 56.87%

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<th>Category</th>
<th>wt.</th>
<th>YTD Gain</th>
<th>Tot Gain</th>
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<tbody>
<tr>
<td>Quality “A” Gold Shares</td>
<td>22%</td>
<td>180.51%</td>
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<tr>
<td>Speculative Mining Shares</td>
<td>18%</td>
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<td>Essential Technolog Stocks</td>
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<tr>
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<td>Merchant Banking &amp; P.M.</td>
<td>3%</td>
<td>-11.78%</td>
<td>-23.45%</td>
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<td>The Prudent Bear Fund</td>
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<td>32.93%</td>
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<tr>
<td>Model Portfolio</td>
<td>100%</td>
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So, we currently have allocated approximately 20% of our portfolio to the Bear Fund (BEARX) which shorts the stock market and has a 15% to 20% exposure to gold mining shares. We have another 18% allocated to the Prudent Safe Harbor Fund (PSAFX), which effectively shorts the dollar in favor of high quality short-term securities denominated in currencies other than the dollar. And since we think we are in the early stages of a multi-year bull market in gold, we presently have approximately 50% (counting both Prudent Bear funds and the Prudent Safe Harbor Funds) in gold and gold mining shares.

With respect to technology stocks, given our rather bleak view of the markets and U.S. economy, we insist that these companies have the potential to reduce the cost of producing essential goods and services like food, water, and energy. Two of those companies, namely Response Biomedical and Itronics are discussed in this issue. With respect to energy stocks, they must either provide significant income in the form of dividends or they must have a technology that can lower energy costs. So far our strategy has worked well, evidenced by a 56.87% return compared to a 7.49% decline in the S&P 500. So far, so good. We have a long way to go before this year is over but unless something changes our view of the markets and economy, we think we are well positioned for a successful year.

Golden Phoenix Readies Itself for Production

As we have emerged from a twenty-year bear market in gold, we have approached gold share investing with caution. Specifically, we have chosen to build our portfolio first around producing gold mining companies which are listed under the “Q” (quality) column as “A” stocks. We have also opted to concentrate during these early days of the bull market on advanced stage junior mining firms with gold projects that have been advanced to at least the pre-feasibility stage or feasibility stage of development. Those issues are labeled as “B” gold firms.

At this early stage of the gold bull market, we have only a smattering of “C” and “D” quality junior mining firms. As the gold bull market progresses, and as the larger companies become more fully priced, we will shift our emphasis more toward exploration companies which are labeled “C” and “D” companies. A “C” company is one that has outlined a mineral deposit but which has not yet completed a sufficient amount of work to determine economic feasibility of a project. “D” quality companies
are those that may have some surface gold indications and/or perhaps have evidence of gold bearing structures but without a sufficient amount of drilling carried out to establish the size and grade of a mineral resource.

So far this year, the biggest share price winners have been the smaller “A” quality companies. We expect the next group of really big winners will be those “B” quality companies that are on the brink of production. Of this group of companies our favorite is Golden Phoenix Minerals because it will be producing gold on a commercial scale perhaps by mid-summer.

We initially recommended this stock for three basic reasons: First, it held (and still holds) the formerly producing Nevada gold mine, namely the Borealis Mine, which contains a 1.4 million ounce gold resource. Secondly, it holds the Contact copper-molybdenum-silver deposit, which is potentially a world class mineral deposit. Third, the company signed an agreement with the mine engineering firm of Whitney & Whitney, headed by inventor, geologist, metallurgist and mineral economist Dr. John Whitney.

Few if any mine-engineering firms have a higher success rate than Whitney & Whitney has had over the years. And, believing as I do that managerial competence is the only reason to buy shares in any company, I viewed the alliance of Dr. Whitney with an already capable team headed by President Mike Fitzsimonds and Vice President and senior geologist, Steve Craig as a winning combination.

The continued depression in the gold mining industry has until now kept the GPXM share price under pressure. But despite the difficulty caused by depressed industry conditions, management acquire the $30 million Mineral Ridge mine out of bankruptcy for $225,000 and as such place the company in a position to become a gold producer. With the assistance of Whitney & Whitney, the causes of prior operating failure are now understood and a new business plan is in place that shows Mineral Ridge to be a more robust project now at $325 gold than it was recently with gold at only $275 per ounce.

Following is a discussion of the new Mineral Ridge Business plan followed by a discussion of the company’s Borealis and Contact projects.

**Mineral Ridge Gold Mine**

**Esmeralda County, Nevada**

Several companies worked on the Mineral Ridge Project between 1975 and 1995 when Cornucopia Resources Ltd. began the current development. Cornucopia constructed the existing plant and heap-leach operation. The site facilities alone were constructed at a capital cost of $17 million. The total expenditure on the project was approximately $30 million. The mine began operation in 1997 and was sold by Cornucopia Resources in 1998 to Vista Gold. Vista operated the property for one year in 1999 before shutting it down and putting the Mineral Ridge project into bankruptcy. Golden Phoenix Minerals purchased the project out of bankruptcy for $225,000 in December 2000.

Although metallurgical studies indicated that more than 80% of the gold could be recovered via a cyanide leach operation, actual gold recoveries over five years amounted to a mere 58%. Work carried out by Golden Phoenix indicates that the reason for this discrepancy was that a considerable amount of the gold contained at Mineral Ridge is coarse and thus leaches very slowly. Because of this slow leach rate, the amount of recovery was insufficient to cover the direct costs of the prior operators.

**Revised Recovery Process Enhances Economics**

Since GPXM acquired Mineral Ridge, the company and Whitney & Whitney have carried out additional metallurgical studies that indicates a recovery rate in excess of 96% can be achieved by way of a milling process that combines a simple gravity process with a cyanide circuit. Not only will more gold be recovered than the previous operational recovery level of 45%, but it will be recovered immediately through the milling process rather than over a course of months and years via heap leaching.

But the picture looks like it will be even brighter because based on research carried out by Whitney & Whitney, prospects appear good for the derivation of significant revenues from the sale of industrial mineral byproducts. At this point, it looks as if the sale of these mineral byproducts could add over $30 million in revenues from year three through year nine of the project. If these revenues are applied as a credit to operating costs, it would reduce the cost of producing an ounce of gold by over $80 to approximately $115 per ounce.

**Revised Business Plan**

The company has outlined the following two-phase approach to putting the project into production:

Phase I. – This will entail applying cyanide to the existing leach pads. Management has projected production of approximately 10,000 ounces per year with cash costs expected to be in the $130/oz. to $150/oz. range. At $325 gold this would provide a direct operating profit over the next two years ranging between $3.5 million and $3.9 million. Based on work carried out to date, management expects most of the coarse gold contained in the pads will not be recovered during this two year period. However, they do expect to recover most of the coarse gold remaining on the pads when they process it through the gravity/cyanide mill to be constructed prior to the end of year two.

Based on bulk sampling of the heap, GPXM believes there remains some 49,000 ounces of gold on the pads. Assuming 20,000 ounces are recovered via heap leaching during Phase I, the pad would contain an additional 29,000 ounces which would then be used to tune up the new mill. Assuming GPXM can recover 96% of the gold contained in the Mineral Ridge ore as management anticipates, another 28,000 ounces of production should result from the processing of the leach pad material.
At the start of Phase II then, the plan calls for the existing material on the pads to be removed and processed through the new mill using a ratio of 30% from the heap and 70% from the mine. In processing this cyanide laced ore on the leach pads, management will not only recover most of the remaining gold contained therein, but it will also meet an environmental obligation by washing this cyanide-laced ore completely and leveling the pads.

Phase II – It is during Phase II that things start to get quite interesting at Mineral Ridge. During Phase II, which is scheduled to commence within two years of the start of Phase I, production of a gold equivalent 60,000 ounces of year should take place. In fact, gold production is expected to total around 54,000 ounces per year. But when industrial mineral credits are factored into the model, based on current industrial mineral and gold prices, the mine produces the equivalent of 100,000 ounces of gold in the 9th and 10th year of the project.

At present, including the gold contained on the leach pads, the gold reserves on the project are about 260,000 ounces. Drill indicated resources are approximately 560,000 ounces. According to GPXM geologist Steve Craig, based on the size and preliminary grade indications on known gold bearing zones at Mineral Ridge, an additional 3 million to 5 million ounces may be contained on the property. Obviously, any expansion of reserves akin to these levels would significantly increase production levels and/or mine life. Additional reserves will be developed with new drilling.

**Capital Expenditures & Dilution** - In the Operating profits in the table below, we have assumed that all of the existing share warrants will be exercised and that the proceeds from that conversion will net the company $2.5 million. In addition, it is our view that as long as gold prices remain at or above $300, the company should be able to obtain reasonably priced debt and equity financing. Together, these sources of funding plus an additional cash flow of approximately $3.7 million (under a $325 gold price assumption) should provide most, if not all of the required $12 to $13 million required to implementing both Phase I and Phase II of the current business plan.

### Potential Economics of Mineral Ridge At $325 Gold

<table>
<thead>
<tr>
<th>($ thousands)</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
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<tbody>
<tr>
<td>Gold Sales</td>
<td>3,250</td>
<td>3,250</td>
<td>17,160</td>
<td>17,160</td>
<td>17,160</td>
<td>17,160</td>
<td>17,160</td>
<td>17,940</td>
<td>21,840</td>
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<tr>
<td>Shipping &amp; Refin</td>
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<td>(65)</td>
<td>(343)</td>
<td>(343)</td>
<td>(343)</td>
<td>(343)</td>
<td>(343)</td>
<td>(343)</td>
<td>(343)</td>
</tr>
<tr>
<td>Operating Costs</td>
<td>(1,163)</td>
<td>(1,380)</td>
<td>(10,577)</td>
<td>(10,577)</td>
<td>(10,577)</td>
<td>(10,577)</td>
<td>(10,577)</td>
<td>(10,944)</td>
<td>(13,077)</td>
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<td>Mineral Credits</td>
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<td>912</td>
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<td>4,587</td>
<td>6,121</td>
<td>6,948</td>
<td>7,610</td>
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<tr>
<td>Operating Profit</td>
<td>2,022</td>
<td>1,805</td>
<td>7,152</td>
<td>8,371</td>
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<td>12,361</td>
<td>13,585</td>
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<tr>
<td>Op. Profit/Share</td>
<td>$0.03</td>
<td>$0.03</td>
<td>$0.11</td>
<td>$0.13</td>
<td>$0.15</td>
<td>$0.17</td>
<td>$0.19</td>
<td>$0.21</td>
<td>$0.25</td>
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<td>CF Multiple 20x</td>
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<td>$3.02</td>
<td>$3.43</td>
<td>$3.91</td>
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### At $400 Gold

<table>
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<tr>
<th>($ thousands)</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
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<tbody>
<tr>
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<td>4,000</td>
<td>21,120</td>
<td>21,120</td>
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<td>21,120</td>
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<td>Shipping &amp; Refin</td>
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<td>(80)</td>
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<td>(422)</td>
<td>(422)</td>
<td>(422)</td>
<td>(422)</td>
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<tr>
<td>Operating Costs</td>
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<td>(10,577)</td>
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<td>(10,577)</td>
<td>(10,577)</td>
<td>(10,944)</td>
<td>(13,077)</td>
</tr>
<tr>
<td>Mineral Credits</td>
<td>-0-</td>
<td>-0-</td>
<td>912</td>
<td>2,131</td>
<td>3,263</td>
<td>4,587</td>
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<tr>
<td>Op. Profit/Share</td>
<td>$0.04</td>
<td>$0.04</td>
<td>$0.17</td>
<td>$0.19</td>
<td>$0.21</td>
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<td>$6.50</td>
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**Assumptions:**
- Gold Prod Yrs 1 & 2 (10,000 oz/yr, a rough estimate). Yrs 3 to 7 (52,800 oz/yr). Yr 8 (55,200 oz.) and Yr 9 (67,200 oz.)
- Shipping & Refining costs = 2% of gold sales.
- Mining costs estimate, derived from MR prior operations, and prelim cost est are for the new gravity-cyanide recov plant.
- Year 9 only has about 45 % of the mill feed sold as Industrial Minerals
- Industrial Minerals Operating profit, depends upon market penetration, quality of product and confirmation test work.
- Total recovered gold above, is 406,400 oz, which includes 210,000 proven gold ounces plus 37,000 ounces from heap ore.
- We have assumed the market would assign a multiple of 20 times current cash flows in projecting potential share prices.

**Major Blue Sky Potential**

For some or all of the following reasons, we think the above noted projections could be conservative:

**Much Higher Gold Prices** – We are in the early stages of a primary bull market in gold. What that means is that the price of gold should go much higher than $400 as projected in the second table displayed above. Indeed, we believe gold should rise considerably above the old highs of $850. You do the math. But you can see the significant increase in potential value with a rise in the price of gold from $325 to $400.

**Potential For Increased Gold Production** - The
company’s projections are currently based on reserves of 260,000 ounces and a resource of 560,000 ounces. Projections for an increase of between 3 million and 5 million ounces could well lead to considerable expansion of gold production and hence much higher profits.

The Borealis Gold Project - With the company devoting most of its energies to Mineral Ridge, the market may in part be losing sight of the fact that GPXM also holds a 100% interest in the Borealis Mine, which is another former producing Nevada gold mine. This mine has a 1.4 million ounce gold resource with considerably more exploration potential, particularly for the discovery of high-grade underground mineralization.

Currently the company is considering beginning new development work at Borealis, once Mineral Ridge gets off the ground. Because of Golden Phoenix’s newly acquired expertise in handling and permitting leach pads, the Borealis leach pads are going to be fully evaluated for re-leaching. Earlier studies found that these old heaps still contain a large amount of gold that can be recovered. The company is further planning to get the required permits to conduct drilling to convert some of the indicated oxide ore to mineable reserves. This new ore could then be mined and placed on the new pads that will be built to handle the older heap material and any new ore. Depending on gold price and economics, the Company will be looking at developing the Graben deposit as an open pit, although quite a lot of work has been done to reach this decision. The Graben is an excellent development target for very high grades of gold ore.

The Contact Copper Project – This property is located in northeastern Nevada. A resource in excess of 1 billion pounds of copper has already been outlined with only a very minor portion of the known mineral bearing structure having been explored. In addition to copper, this project also has significant silver and molybdenum values. Given your editor’s bearish views about commodities (other than precious metals) over the next several years, we are not overly excited about this project at this time. However, if the views of our friend Jim Rogers are correct, namely that commodities may in fact suddenly become very valuable in relation to an extremely overvalued dollar, this could turn out to be a very pleasant surprise for all shareholders and us. To be sure, its geological potential is enormous. In fact Dr. John Whitney said, while wearing his geologist hat that he thinks this project has the potential to rival the truly great world-class mineral deposits. While we would not assign a high probability for this project adding any significant value, if it does do so, it could be very significant.

Management

Michael R. Fitzsimonds – President, Director - Mr. Fitzsimonds is the President and a Director of the Company. He is an experienced geological engineer with over 24 years of mining industry work. Previously, he was with Santa Fe Pacific Gold Corporation for 10 years with responsibilities for all of Santa Fe’s initial resource evaluations and due diligence work of all mine operations and acquisition projects worldwide. Overall, he has experience in the minerals industry with project development ranging from grass roots exploration, project development and mine startup. Mr. Fitzsimonds’ current responsibilities with Golden Phoenix includes handling all administrative aspects of the company, which include SEC liaison, corporate finance, human relations, as well as directing the current predevelopment work including all resource evaluations, and assisting in exploration evaluations.

Steven D. Craig – Vice President, Secretary and Director Mr. Craig is Vice President, Corporate Secretary and Director. Mr. Craig is an experienced economic geologist with 28 years of diversified exploration work. He previously spent 23 years of his career with Kennecott Exploration Company and their affiliates including Bear Creek Mining Co., BP Minerals America, and RTZ Ltd. His experience was mostly gained in the western United States as both an exploration geologist and manager of a successful gold exploration team based in Reno. He also has international experience in such places as Papua New Guinea, South America, and Mexico. He previously served as an officer and trustee with the Northwest Mining Association and as President of the Geological Society of Nevada. Mr. Craig’s current responsibilities with Golden Phoenix include directing all exploration aspects of the Companies projects and assisting the President with administrative duties as required.

David A. Caldwell – Director Mr. Caldwell is a Director with professional experience as a geologist and geophysicist. He has more than 15 years experience in the minerals exploration industry with work in sulfur, base metal and gold exploration and development. He previously had roles in project management and development at Santa Fe Pacific Gold Corporation and Gold Fields Mining Company. He is currently an Officer and Director with Nevada Pacific Gold (US), Inc. in Elko, Nevada. Mr. Caldwell is responsible as an outside director to ensure that the company achieves success by proper utilization of its resources.

Allen J. Marter – Director Mr. Marter is a Director and is Chief Financial Officer for Golden Star Resources in Denver, Colorado. Previously, he was a financial advisor in the mining industry and Principal of Waiata Resources of Littleton, Colorado. He has over 22 years experience in the mining industry and previously served as chief financial officer for several junior exploration and mining companies in Denver and Vancouver. He has been active in mining industry activities and in 1993 was President of the Northwest Mining Association. He is also a director of Minera Andes Inc. and Addwest Minerals International, Limited. Mr. Marter is responsible as an outside director to ensure that the company achieves success by proper utilization of its resources.

Whitney & Whitney, provides strategic planning and technical advice to an already strong management team at...
GPXM. Indeed, it was Whitney’s involvement with GPXM that convinced your editor to recommend this company and to assist it in obtaining financing over the past three years. This firm is not only a consultant to Golden Phoenix, it holds a significant equity stake in GPXM as does its CEO, Dr. John Whitney. What is not well known is the fact that Whitney & Whitney has an impeccable success ratio. All of the mining projects that Whitney & Whitney participated in drafting into production were successful. Your editor has learned to know Dr. John Whitney, the CEO of Itronics very well over the past 15 years and I have the highest level of confidence in his abilities and also know him to operate with strong business ethics. In my view, the involvement of Whitney & Whitney increases the probability of this company’s success.

SUMMARY & CONCLUSION

During the early stages of this new primary bull market for gold, it is normally the producing gold shares that explode off the launch pad first, followed by those companies with advanced stage projects, denoted by a “B” quality rating on the back page of our newsletter. If this bull market is true to form, then, the “B” quality firms should be the next to move. None of the “B” quality firms on our list are closer to achieving profitable production than is Golden Phoenix. Assuming gold prices rise no further than their recent $325 and that the company doesn’t add any ounces to its already 1.4 million ounce Borealis property, we believe GPXM is poised for a move up toward the $2 to $5 range based on future projected earnings.

Moreover, as we were going to press with this issue, we understand that prospects for obtaining funding necessary to commence production at the rate of 10,000 oz. per year appear very good. Assuming this company does achieve production, we anticipate upgrading this stock from a “B” to an “A” quality issue at which time we would anticipate a considerable increase in the share value of GPXM. The fact that GPXM is ready to commence production combined with prospects for outlining a multi-million ounce deposit on not one but two Nevada gold properties is the reason we continue to consider GPXM to be our favorite junior gold stock. For additional information, contact the company at: 775-853-4919.

Itronics Inc.

How Much is this Company’s New Revolutionary Fertilizer Really Worth?

Traded OTC BB - ITRO
Recommended 3/1/97: $0.10
Price 6/7/02: $0.35
Shares Outstanding: 82,784,000
Quality Rating: “A”

Overview: Itronics is a one-of-a-kind company. It recycles photochemical waste, removes virtually 100% of the silver and other heavy metals from this waste before turning the residual waste into an environmentally friendly liquid fertilizer product, and a revolutionary fertilizer that boosts crop production by an astounding 10% to 50%!

The company’s Goldn’Gro liquid fertilizer is quickly gaining market acceptance in California! Given its demonstrated potential to significantly boost crop productivity, we anticipate explosive sales growth in the months and years to come that should justify a medium term price target in the $3 to $5 range and longer term a share price in the $10 to $12 range.

In trying to judge what a stock is worth, securities analysts look at market caps for comparable companies. But how on earth can one find a company that is comparable to that of Itronics when there really are not any companies like it? The answer is that you can’t. However, one specialty fertilizer company located in Chile, that I recently learned about may provide a general guideline for what kind of valuations the market may be willing to pay for the producer of the revolutionary new Gold’n Gro fertilizer.

The company I have in mind is Sociedad Quimica y Minera (NYSE-SQM-$23.50). The company is described as an integrated producer of natural nitrates, sulfates, iodine, potassium chloride and lithium carbonate and other chemical products obtained from deposits found in the Atacama Desert region of northern Chile.

SQM, which is located in Chile, had sales in 2000 of $501.8 million and operating profits of $67.4 million and a net income of $24.6 million. During the first nine months of 2001, revenues of $398.9 million were 20% higher than during the like period of 2000 and operating income rose to $53.7 million, or 3.7% higher than during the first nine months of 2000.
Over the past three fiscal years (1999, 2000 and 2001), sales (in millions of U.S. dollars) totaled $505.7; $493.7 and $501.8. Operating profits (EBITDA) were: $67.2; $82.9 and $67.4 respectively. At its current price, this stock has a market cap of around $618 million. Recently, the largest fertilizer company in the world, Potash Corp., a Canadian company, purchased an 18% interest in SQM for US$126 million. In other words, Potash Corp paid approximately 10 times 2001 operating earnings for their 18% equity interest in SQM.

So now at least we have a reference point for valuing Itronics. We have identified a specialty fertilizer company that in fact may serve some of the same kinds of markets that Itronics is beginning to serve.

In its 2001 annual report, Potash Corp. describes SQM as "a world leader in specialty fertilizer, iodine and lithium business." And in a newsletter dated February 2002, Potash Corp. said the following with respect to its acquisition of SQM. "PotashCorp has strengthened its potassium nitrate business by purchasing approximately 18% of Sociedad Quimica y Minera de Chile S.A. (SQM), a Chilean company considered a world leader in specialty fertilizer, iodine and lithium. This adds to the leadership position of Potash Corp. claimed in 1999, when it purchased Mineara Yolanda SCM and became the first North American primary fertilizer producer to offer potassium nitrate.

"The high solubility and low salt index of potassium nitrate make it well-suited to fertigation and foliar application. It is used on high-value crops that grow best with non-chloride fertilizers such as greenhouse plants, flowers and vegetables. It has many uses as an industrial feedstock, contributing to hardness and durability in ceramics."

SQM is a 'speciality fertilizer company.' So is Itronics. SQM's products figure to be well suited for greenhouse plants, flowers and vegetables. So is the Itronics Gold'n Gro line of liquid fertilizers well suited for these markets. And the Itronics products are also well suited for fertigation and foliar applications.

Admittedly, SQM has proven itself commercially. It is a profitable company while Itronics has yet to earn a profit. And the projected revenues of $4 million for ITRO this year is a far cry from annual revenues of around $500 million for SQM. However, with a hugely successful 2001 field season behind it and with its marketing and production infrastructure now firmly in place, and with orders rising dramatically from last year, a period of dramatic growth now appears to be a very likely prospect for ITRO.

Moreover, surging demand for Gold'n Gro for a number of years into the future would seem likely given the fertilizers demonstrated ability to boost crop production from 10% to 50%. Given the economic virtues of Gold'n Gro for farmers and a more than adequate source of requisite raw material from which to produce Gold'n Gro, we think ITRO could conceivably rise toward the $500 million revenue range over the next few years.

Assuming the market assigns multiples for ITRO that are similar to those it assigns to SQM, let us now project a possible share price for ITRO. At the Itronics annual shareholder’s meeting a few months ago, the following revenue and EBITDA (earnings before interest, taxes, depreciation & amortization) projections were provided to shareholders:

* 2002 - Revenues of $4 million and a break-even EBITDA.
* 2003 - Revenues of $11.5 million and an EBITDA of $4 million.
* 2004 - Revenues of $39 million and an EBITDA of $13 million.
* 2005 - Revenues of $80 million and an EBITDA of approximately $26 million.

In fact, these numbers may be conservative because no economies of scale are built into profit margins despite the fact that Itronics business is characterized by high fixed costs and low variable costs. Also, we think it is conceivable that top line growth (revenues) could rise significantly faster than conservative projections provided to shareholders.

We think it is possible that ITRO's revenues could grow to $160 million by 2006 or sooner. Even if we do not consider improving profit margins from economies of scale, the company would then earn an EBITDA of around $55 million, good enough for a market cap of $550 million or $5.50 per share.

Valuations Could go Much Higher

Itronics will have to prove its business model will work before it is honored with a multiple of future earnings akin to what the market pays for SQM. However, we think ITRO could ultimately sell at a higher multiple to EBITDA than SQM for some or all of the following reasons:
* Unlike SQM, Itronics has revenue flows from three sources: 1) waste management, 2) silver and 3) fertilizer. This should lead to a considerably higher profit margin than generated by the SQM business model which is essentially that of a mining company.

* SQM is essentially a company that processes brines. It removes the salts from the brine, then it produces and markets various specialty fertilizers that are left behind. In fact, as Itronics CEO John Whitney has noted, ITRO is also essentially a "brine processor," but with one notable exception. While the size of SQM's business is limited by the size and other processing constraints of its mining project, ITRO receives its raw material from sources that are potentially global. In other words, whereas SQM's revenues are apparently limited to around $500 million due to the natural constraints of its mineral claims, the ITRO "brines" sources are global and for all practical purposes unlimited. What this means is that ITRO has the potential to become a company much larger than $500 million. With growth theoretically unlimited, a much higher multiple is possible for ITRO than for SQM.

* Not only does ITRO have multiple income streams at present, but we also expect the company will add a fourth revenue stream in the form of photochemical sales to film and X-ray labs. Those revenues will in effect significantly reduce the cost of transporting raw material from x-ray labs and photo shops from what is built into the numbers projected by ITRO to date.

* We think the company can grow to around $500 million in revenues from the processing of photochemical from North America alone. This assumes a photochemical market share of 30% to 40%. However, the company also has identified still unannounced secondary sources of raw material waste that can be used to supplement photo byproducts that it currently uses to manufacture the revolutionary Gold'n Gro fertilizer. When combined, these additional sources should provide ample raw material to allow the company to exceed $1 billion in revenues from the production of Gold'n Gro from North American sources alone.

* Itronics has also been developing an environmentally friendly alternative to cyanide leaching used on mining projects. There are a couple of hurdles that ITRO needs to crossover before this business becomes substantial. First, there is some additional R&D work that needs to be carried out. But more significantly, the company needs to scale up its fertilizer manufacturing capacity to the level where it will be shipping Gold'n Gro out of its plant in train-car capacities rather than bulk tank truck-load capacities. This will become necessary, because the chemicals that will be used for this thiosulphate mineral extraction process will then become another source of raw material to be used to manufacture Gold'n Gro fertilizer. Management is quite excited about the longer term prospects for this business and its synergies with the production of Gold'n Gro. It views this as a second business that could in fact become as large or larger than the photobyproduct recycling to fertilizer business.

* Revenues factored into the company's model so far are based on competitive pricing for Gold'n Gro with that of other fertilizer products. However, it should be kept in mind that given the huge productivity gains for Gold'n Gro, premium pricing may be required to efficiently allocate this fertilizer product among competing applications.

* Itronics' Gold'n Gro fertilizer product line is considerably more extensive than the fertilizer product lines of SQM. A versatile product mix, combined with the product's productivity characteristics, should provide competitive advantages for ITRO in the event these two companies choose to compete in the same markets.

* Management also has also carried out some fairly advanced work to demonstrate the technical feasibility of demetalizing phosphate fertilizers. It is the non-nutritional metals in phosphate fertilizer products that are toxic. ITRO believes it has largely solved the technical problem of demetalizing phosphate fertilizers. While this business should be a large volume lower margin business, management believes it has the potential to become a major contributor to ITRO's profits over the longer term. Preference for this product over existing phosphate fertilizers should result from its favorable environmental attributes.

Investors should be aware that many of these "blue sky" developments may take several years to unfold. However, signs abound that the company’s core business (manufacturing Gold’n Gro from photobyproducts) is in the process of very robust growth. From this basic business, the company hopes to eventually build itself into a billion dollar revenue company as it commercializes these various other businesses.

Investors should also be aware that ITRO remains a stock with a considerable amount of risk attached to it. Its still low price means that raising capital is still
expensive. We think that is likely to change as the company's sales continue to grow. For example, working capital funding should become more reasonably priced as ITRO builds high quality receivables and inventory in its production pipeline. But risks do remain, so as always, we recommend investors not allocate more than 5% of their portfolio at time of purchase to ITRO.

While more time has been required for the company to progress to its current stage of development than we had initially envisioned, the path now appears clear for patient investors to begin enjoying strong returns on their investment. Contact the company for additional information at (775) 689-7696 and/or visit the ITRO web site at www.itronics.com.

Golden Phoenix & Itronics Disclaimer – Your editor and his family own shares in both Golden Phoenix and Itronics Inc. Also, your editor has a “Success Fee” in place in which he is paid a fee of between 1% and 5% of funding he assists in directing to both of these companies.

Response Biomedical Corp

Traded CDNX (RBM-)
Shares Outstanding: 36.1 million
Fully diluted: 56.1 million
Recommended 11/17/01: $0.13
Price 6/7/02: $0.49
Quality Rating: “B”

Response Biomedical is developing quantitative, point-of-care, diagnostic tests for use with the company’s proprietary Rapid Analyte Measurement Platform (RAMP) platform. This stock came into focus for your editor following the tragic events of September 11, 2001. In fact, the company is able to apply its RAMP technology for a more rapid and thorough detection of anthrax than any other test on the market. Management also believes its RAMP platform can be used to vastly improve diagnostic techniques for a host of ailments. With respect to potential heart attack victims, RBM reportedly is able to enable a physician to accurately determine whether a person complaining of chest pain actually has or has not suffered a heart attack. Accuracy of course is important for the purpose of saving lives. But it is also important in terms of reducing costs. A negative result may allow a physician to send a patient home rather than keeping him in the hospital. Insurance companies love that idea.

With respect to the application of RAMP to Anthrax, on May 29th, the company made the following announcement that it had commercially launched the RAMP anthrax test, the world's only rapid and reliable on-site detection system capable of distinguishing between a hoax and a potentially infectious dose of anthrax.

For the first time, emergency responders on the front lines of bio warfare now have access to an inexpensive, easy-to-use and portable screening system that provides reliable results in minutes. The market-ready RAMP system will vastly improve the ability to dismiss a hoax or take immediate action to protect public health and safety in the event of an actual anthrax attack. Competing rapid on-site tests are unreliable because they cannot detect low levels of anthrax spores and often produce false positive results. Inaccurate readings are common and the test results are inconclusive.

Emergency responders continue to rely on confirmatory lab testing for a conclusive result, which takes on average one to three days and precludes an immediate and effective response to a hoax or actual anthrax attack. According to the company’s President, Bill Radvak, until now the inability to quickly obtain a reliable on-site test result when confronting a potential bioterrorist anthrax attack, has made the U.S. fundamentally vulnerable.

After both internal and independent science-based evaluations of the company’s system and competitive technologies are on the market, management said it expects the RAMP system will soon become “the
"gold standard" in on-site biowarfare detection." Independent validation from a leading U.S. government laboratory showed RBM's RAMP anthrax test demonstrated a reliable detection level of 4,000 live spores, with 99-per-cent confidence in specificity. This is substantially below the 10,000-spore level used by the U.S. Center for Disease Control and Prevention (CDC) to define an infectious dose. And it is important to note that spore counts considerably below 10,000 can be lethal. According to management, no other competitive technology purports to have comparable performance characteristics.

Because RPM is confident of the ability of its technology to accurately and quickly diagnose Anthrax, it is pushing for a regulated market to keep companies from making false claims and crowding it out of the markets. According to management, “research suggests that some alternative products may be unable to detect anthrax in multimillion spore quantities though it may tend to give people a false sense of security.” So management is more than ready to have a dependable authority require truthfulness in advertising because the company is confident this all import ant test can deliver accurate and reliable on-site test results in less than 15 minutes.

**Broad Applications of RAMP**

While the current focus of RAMP is on anthrax and the heartattack diagnostics, management believes the company’s technology, which consists of a portable fluorescence reader and disposable test cartridges, has the potential to be adapted to more than 250 medical and non-medical tests currently performed in laboratories. Earlier this year, the same RAMP reader used in biowarfare detection received marketing clearance from the U.S. FDA for general clinical use. So the longer term prospects for RBM seems bright and the revenue potential very great when combing a large number of applications.

The company has also initiated the development of additional tests for biological agents including botulinum toxin and ricin to meet the security and business requirements of corporations, governments and public safety institutions worldwide. The company expects RAMP will become an essential emergency device analogous to a standard fire extinguisher -- not often used but readily available.

The battery operated RAMP reader weighs less than five pounds and is easy to operate with single-use disposable cartridges. Data can be stored on the device and uploaded to a printer or computer. The system is now available for an all-inclusive price of less than $10,000 (U.S.).

**Potential Sales & Revenues & Share Price**

Because of the threat of bio-terrorism and given that significant resources are becoming available by way of government allocation, the company’s is focusing the lion’s share of its marketing efforts now in this area. With respect to the application of BRM’s technology for Anthrax alone, the market is of such size that we think revenues may be sufficient to allow the company to generate operating cash flows (EBITDA) up to $40 million annually in three or four years. As we noted above, there are a host of applications for RAMP, all of which should help reduce the cost of producing an essential service, namely health care.

In any event, if we were to assume all the company’s current warrants and options are exercised, the company would have 56.1 million shares outstanding. A $40 million EBITDA would give the company earnings before interest depreciation and amortization of around $0.60 per share. Assuming this company is able to hold its competitive edge into the future against a large number of the applications RAMP is suitable for, we think a share/EBITDA multiple for this company’s shares could be quite high. But even if we assigned a reasonably low multiple of 10 times EBITDA, and assuming the company is able to achieve the $0.60 level discussed above, RMB would sell at $6.00 vs. its current price of under $1. For additional information, contact the company in Vancouver at (604) 681-4101, or visit the company’s web site at [www.responsebio.com](http://www.responsebio.com).

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**The Origins of Knowledge & Wisdom?** "The Fear of the Lord (God our Creator) is the beginning of knowledge; fools despise wisdom and instruction. (Proverbs 1:7)"
<table>
<thead>
<tr>
<th>Company Activity/Comments</th>
<th>Price 12/31/01</th>
<th>Initial Date</th>
<th>Price 5/31/02</th>
<th>2002 % Gain</th>
<th>Overall Buy/Hold</th>
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<tr>
<td>Agnico Eagle Mines Ltd. *</td>
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<td>Mid-sized Canadian gold producer</td>
<td>9.89</td>
<td>3/10/01</td>
<td>7.38</td>
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<td>American Eagle Minerals C</td>
<td>AAS A</td>
<td>To earn 45.0% of South Korea's largest gold mine</td>
<td>0.19</td>
<td>10/01/99</td>
<td>0.13</td>
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<td>2/27/89</td>
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<td>Centaur Resources Corp. D</td>
<td>D CNT D</td>
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<td>B. Adv. Stage Large Mexican Silver Project</td>
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<td>Continental Gold O</td>
<td>D DRO B</td>
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<td>Eaglecliffs Enterprises F</td>
<td>E EEL F</td>
<td>Multi-million oz. gold target in Bolivia</td>
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<td>Formation Capital T</td>
<td>FCX T</td>
<td>C. Copper/ Cobalt/ Gold play in Idaho &amp; Mexico</td>
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<td>Golden Goliath C</td>
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**Average Gain (Loss) on Gold Mining Stocks (including closed positions)**}