

The Grandich Letter

A periodical of Grandich Publications, LLC. • Thursday, January 8, 2004

2003 Review and Outlook For 2004

January 8, 2004

DJIA	10,529
Gold	\$421.70
NASDAQ	2,077
Silver	\$6.22
Dow World Index	190.11
Platinum	\$843
10-YR. T-Bond	4.24%
CRB Index	256.75

After sidestepping the stock market devastation from 2000 through 2002, I did not participate in the strong stock market rebound in 2003. However, by choosing precious metals and mining shares over the DJIA and NASDAQ, yours truly doesn't regret his actions one bit. While I believe neither the stock market nor the precious metals and mining shares will match their respective 2003 performances, I do believe it will be an up year for the metals. The same can't be said for the stock market.

Overall Outlook – Simply put, I am investing with the assumption that the majority of Americans have been living a life of excess and that they have borrowed greatly from their futures (in more ways than just monetarily). They are sitting on a volcano and, when (not if) it erupts, it will be far worse and cause more damage than anything that any terrorist organization can cause.

No matter where one looks in America these days, the deterioration is evident. From family life and family values to their financial well-being, psychiatrists say Americans are generally worse off than their parents and grandparents. This is despite an avalanche of Madison Avenue marketing that has pontificated that “whoever dies with the most toys wins.” This erroneous principle has caused many Americans to chase a carrot that they can never satisfactory catch. It has placed them on a dangerous course, filled with physical and psychological landmines that will destroy, or financially disable, them sooner rather than later.

“The stock market is the single best avenue for financial success.” True or false? **FALSE!!** For every 100 people who receive money as it passes from one generation to another, few can say that it was investing in the stock market that led to the family riches. Ask any accountant or attorney that specializes in high net worth clients and they will validate this claim.

The following is what I believe are the significant factors that led to the family wealth:

- They simply inherited it,
- Family-owned business,
- Transacted real estate,
- Held a senior management position at company and was granted a significant number of cheap stock options.

I believe it will be an up year for metals.

The same can't be said for the stock market.

U.S. Stock Market

I do not believe that more than one or two will say, “mom and dad threw ten or twenty grand in the market and turned it into millions.”

It was twenty years ago that I first became a stockbroker and I can personally attest to the fact that nearly every financial advisor that I had ever met had not made his wealth from his personal investments but, rather, from the commissions and fees that he collected - much of it due to stock market-related products and services.

Bottomline:

I cannot begin to count the many blessings that God has given to me, especially after opening my eyes to what I once believe was living the “American Dream,” when in fact, it was a living nightmare. One of the gifts was meeting a man named Frank Congilose. To experience his most sincere honesty and integrity was something else, especially since he is in the financial services arena. Thanks to him, I was shown a financial process called LEAP or Personal Financial Engineering (www.leapsystems.com) - the

only realistic and Godly way to assist one in matters of finance. It proves, without a doubt, that the stock market is not the Nirvana that many are led to believe. Through LEAP, one can achieve a level of financial independence without any out-of-pocket expenses and no additional risk (and, most times, with less risk).

I believe as we go from 2004 to 2005, the market is likely to be heading lower and ultimately take out the March 2003 lows sometime in 2005 -if not sooner.

“Next year will be a splendid year for employment.” Where have you heard that before? In recent media reports? Perhaps. However, in 1929, the U.S. Dept. of Labor said, ***“1930 will be a splendid year for employment.”***- Duh!

There is little doubt that after two devastating years in which lives were unfortunately changed, the rebound in 2003 was a welcome relief to stock market participants. While far too much time is wasted on both predicting the future (I tried it...it does not work) and on analyzing the past, I do believe that the record low interest rates, significant tax cuts, and no disaster on the Iraqi war and terrorism front, have allowed for a significant rebound that may continue well into 2004. However, I believe as we go from 2004 to 2005, the market is likely to be heading lower and ultimately take out the March 2003 lows sometime in 2005-if not sooner.

My Bearish Factors – As just noted, there is enough momentum and euphoria on Wall Street to extend the rise from the March 2003 lows into 2004. However, I believe that the very people, who thought that their lives were “over as they knew it” due to their tremendous losses in their stock portfolios in 2001 and 2002, have now not only passed up on their prayers being answered and had their portfolio rise back to a level that they thought they would never see again, but have actually become more leveraged into the market. They will become victims of the “fool me once shame on you, fool me twice shame on me” syndrome. But, then again, “bulls and bears each have their day but the pigs always end up going to the slaughter house.”

Simply put, the market is at one of its all-time highest valuations. History has shown these levels to be places to sell, not buy. Knowing the sales force on Wall Street loves to say, “this time its different,” one needs to ask what can support higher valuations over

a long period of time? The answer is lower interest rates and increased productivity. We've seen a record on both fronts. And while knowing that it is possible to see a little more upward motion, why should one try to be the last one out before the inevitable reversal occurs? U.S. corporate executives, a group that recent history has clearly shown us knows much more about the companies than their shareholders, has seen their insider selling levels reach an intensity not seen since the market peaked a few years back. But what do they know anyway?

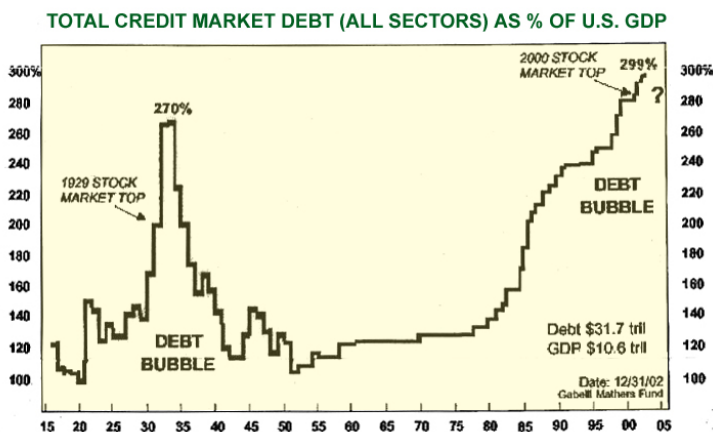
economy at a time when real troubles are brewing that are not related to terrorism.

- As noted in the beginning of this edition, Americans have been living well beyond their means. As a country, we continue to borrow from foreigners in order to fund our current deficit. These folks did not mind doing so when the U.S. dollar was going up or stable, but now that it is falling hard, they are facing serious currency losses. These losses can, and will, cause them to rethink their role as our Pusher. They already own over half of our debt at a time when yields are near record lows. Will they demand higher rates to offset their increase risks? Or will they even decide to stop funding our mess and repatriate their funds?

- The U.S. dollar, not too long ago considered by most to be the “safe haven” currency of choice, has witnessed a big swoon of late during a period of astounding U.S. economic growth (stronger economies usually coincide with their currencies rising, not falling). Many reasons have been given for the dollar's decline, but I believe that the reason for its fall is that foreign investors have come to the realization that we are not all part of the “Don't Worry, Be Happy” crowd that Wall Street still has many Americans believing. Has the dollar plummeted against the Euro because the EU has suddenly gotten its own act together and is a much better place for capital? Heck no. It is just the belief that we are a simply more worse off then they are.

- Many good Americans have worried about illegal drugs ruining our younger generation. Well, based upon how our young folks have become hooked on “debt,” we should have our military standing in front of credit card firms and not our borders. Americans in general have been on a literal feeding frenzy of borrowing in order to live and/or maintain a lifestyle that they have been convinced is not only acceptable but also it is “the American Way.”

- I sadly have to admit that I occasionally watch the “soap opera of finances,” CNBC-



There are a whole host of reasons why I suggest 2004 should be used as a selling opportunity for anyone whose portfolio is more than 50% allocated to equities. Seniors should consider no more than a 25% exposure to equities in 2004.

Other bearish factors include:

- It is my unfortunate belief that another serious terrorist attack here in the U.S. is not a question of if, but when. Remember how many felt after 9/11? People wouldn't fly, go to large public places, or even the mall. While our government has done a credible job in trying to protect us, I believe homeland security can never be 100% infallible. Therefore, once we have a second terrorism attack, many Americans will resign themselves that it is now a real possibility and such reactions will seriously impact the

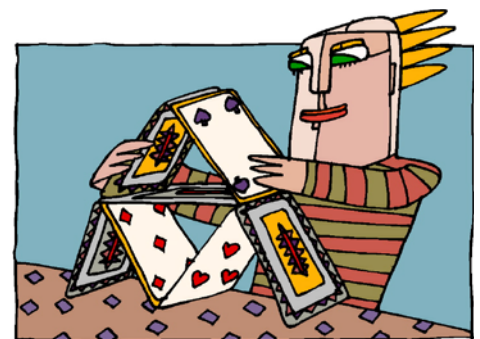
TV. While I strongly recommend that a paper bag be at your side most of your viewing time, I remain astounded at how their so-called “economic experts” could call the 2001 recession “mild” and not recognize how badly it failed to correct what most other recessions have done - lower debt and build up savings for the next economic cycle. Consumer debt has grown by \$1.5 trillion from 1997 to 2000, yet disposable income only has risen \$1.1 trillion. Throughout the 60s, the ratio of new debt to new income was about 30%. Even in the “yuppie” 80s, it was only 50%. But in an era where the main purchasing decision is whether we can make the monthly payment, debt is now rising at triple-digit rates versus income. Make no mistake about it, this cannot continue indefinitely. Eventually, Americans either have to make more income, spend less, or a combination of both. The last recession should have eased our nation’s debt burden. Instead, it only added to it.

- One of the largest factors that allowed this shell game to continue for many Americans has been the first cannot-miss investment for the 21st century - housing. Dramatically lower interest rates not only allowed a false impression that more expensive homes weren’t really more expensive thanks to mortgage payments for a \$500,000 home being the same it was for a \$400,000 home a few years back, but it allowed Americans to borrow from the last place that they had any real assets- the equity in their home. People were raving about how strong the housing boom was despite the recession. In fact, it really came down to just two factors that kept the torrid housing pace alive - the cost of mortgage and taxes (a.k.a. the payment or “carrying costs”). Sorry America, but both of those factors appear set to go against you. I think it is foolhardy to think that interest rates will remain at record low levels. Do not let realtors fool you; higher rates are not good for real estate. And if you are one of those lucky ones who locked in a 30-year rate near record lows, do not think you won’t be affected. This housing boom has been riding a crest on little, or no money down, deals.

That is fine when rates are not rising, but as rates increase, the number of truly qualified buyers will decline. Once the game switches from more buyers than sellers to more sellers than buyers, the “house of cards” that the boom has been built upon will fall. We are already seeing mortgage borrowing volume coming down. I am afraid that it is the little-talked-about second factor - property taxes that can surprise many of the housing boom bulls. Throughout thousands of U.S. towns, real estate taxes are rising at double-digit rates. This is occurring due to a combination of falling federal and state subsidies and rising municipal spending, which inevitably leads to property taxes going up. The combination of both will burst the bubble in residential real estate.

- Sadly, the attempt by Americans to keep up with the mythical Jones, has help lead to a record number of new personal bankruptcies. This has taken place despite a marked improvement in the economy. What worries me the most is the number of people whose bankruptcy filing was not their first one and the number of people who filed bankruptcy because they exhausted their savings due to medical costs. For those who think that bankruptcy is the cure all to

***Housing Boom:
Once the game
switches from
more buyers
than sellers to
more sellers than
buyers, the
“house of cards”
that the boom
has been built
upon will fall.***



financial woes, be aware that Congress is close to passing new legislation that will not only make it harder for consumers to erase their debts, but the debts themselves will not go away as they do now.

- While there has been a lot of it in the news lately, most Americans have ignored it either out of ignorance or because they have been told that it is nothing to worry about - *Protectionism*. If we are to buy into the “one big world economy” theory, then we must recognize that trade is as important as our own national consumption. The news regarding trade has not been good. In fact, Fed Chairman Allen Greenspan and top IMF policy-maker Anne Kruger have openly expressed fears that decades worth of trade liberalization are being reversed and they have issued stern warnings against increasing signs of protectionism.

Bottomline-

The stock market has enough momentum to carry it higher in the first half of 2004. With an economy clearly expanding at the moment, albeit on a structurally-poor foundation, it does not make any sense to most individual and professional investors to sell rather than buy. However, with valuations at or near historically high levels and a severe price to pay for excesses, most Americans have no idea that there is a price to be paid. I believe that 2004 should be a year when equity exposure is lower as prices move higher.

U.S. Bonds

It appears, again, that some of the mouthpieces that appear on financial shows are again talking out of both sides of their mouths. For example, I heard one of them recommend buying stocks because the economy is strong and that corporate profits will grow. Fair enough, I thought. But in his next breath, he said that he also liked the treasury market because inflation is low and that corporations are having a tough time

raising prices, which should keep a lid on inflation. **EXCUSE ME!** Am I to understand that I buy stocks because corporate profits will rise; yet also buy bonds because companies cannot raise prices? Wall Street is the only place where **having your cake and eating it too** is widely accepted.

Lots of reasons have been given for the rise in gold (more later), but I believe that a major reason has been the fact that real interest rates - the cost of money after stripping out the percentage that compensates investors for inflation, has gone decisively negative. This is highly stimulative and I believe that the gold market has correctly foreseen it leading to higher inflation down the road.

The stock market bulls have made much of the strong productivity growth but discard what is known as the “Neoclassical Growth Theory,” when they also predict that interest rates will stay low. Neoclassical Growth Theory states that increased productivity induces more business investment to take advantage of new opportunities. That eventually forces up real rates. If rates do not rise, the economy overheats. Both Federal Reserve Bank of St. Louis President, William Poole, and Fed Governor, Donald Kohn, have publicly stated that interest rates eventually must rise after an upturn in productivity. I guess these two gentlemen do not watch much CNBC-TV.

Bottomline:

Except for some corporate bonds, I believe that most investors should avoid long- term bonds.

Side note to bonds – I wrote a lot about America’s pension woes in 2003. Adding to those concerns now in 2004, is the fact that many state and local governments who are facing ballooning pension promises to teachers, police officers and other employees, have rushed into selling bonds to cover their pension shortfalls. Such a strategy has backfired of late and ends up making the taxpayer foot even more of a bill. Pension bond offerings have increased 400% in the last couple of years. My concern is not that



the bondholder faces loss of principle, but that we are just adding to the overloaded debt structure without actually addressing the real problem. It is just another factor in my long list that assures me that the upcoming graying of America the most acute social, political and economic period that America will have ever faced.

Investment Ideas for 2004 and Beyond

I do believe that there are four equity investment themes that one can play no matter what direction the overall market ends up heading. They are:

- **Security** – 9/11 forever changed how America and much of the world perceived safety. I believe that an inevitable second major attack on U.S. soil will cause those who are back to normal pre-9/11 or still on the fence jump firmly into the “we need to spend and do whatever it takes to be safe” mode. It won’t be long before an eye-scanning or fingerprint scanning will determine who has access to a wide range of facilities and areas when safety is important.

- **Energy** – While oil and gas remain worthy investments, the power outages of 2003 proved that not only did our electric infrastructure need major changes but also there was an acute need for alternative energy sources and ways to improve current energy sources.

- **The Real 21st Century Crisis - the Aging of America** - I urge you to re-read my July 17, 2003 edition *-The Aging Crisis: It Will Not Be Just A U.S. Problem.* The social, political and economic changes that are set to take place will catch most Americans seriously off-guard. Those Americans who are unaware and who are unprepared to face these changes will face adversity but also will generate outstanding opportunities for others. GDP expenditures related to medical issues are expected to double in next 7 years. Assisted living is but one of the new ways the graying of America offers investment opportunities.

- **Internet** – Back at the height of the Internet bubble, I wrote an article for a major New Jersey publication, www.njbiz.com. It was the only bearish article on the Internet amongst the many Pollyannaish forecasters. Well, we all know what happened to that bubble and from that carnage, survivors arose and some have begun to prosper in earnest. How many of us do not realize how the Internet has become a part of our everyday lives? Our young children only know computer life and most of us “elders” have either willingly entered the computer age or we were dragged in kicking and screaming.

Wall Street is the only place where having your cake and eating it too is widely accepted.

Foreign Markets

I have often spoken about how most American's stock portfolios are poorly allocated. Please re-read my July 17, 2003 edition under "Foreign Markets-The Better of Two Evils."

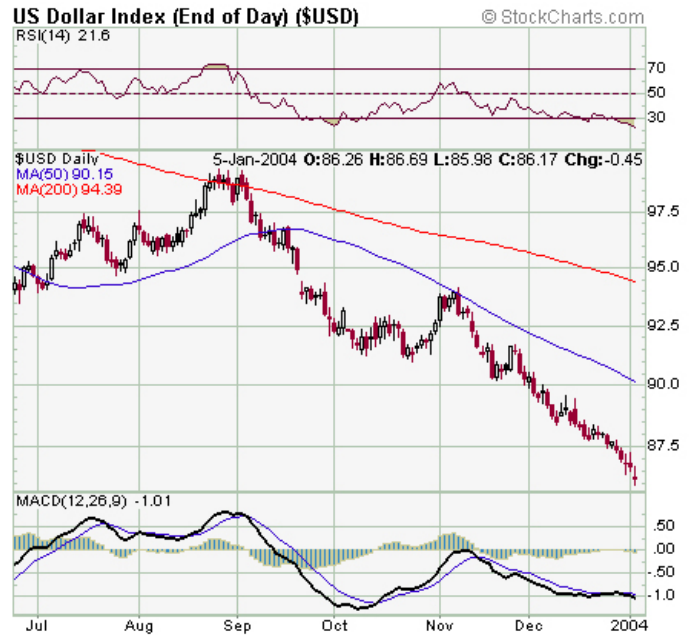
In our premier edition of *North of the Border* (www.grandich.com/docs/NOB/NOB.news.010104.pdf), I spoke about how important Canada and the U.S. are to one another and I touched on NAFTA. From an economic standpoint, I think that many have divided the global economy into 3 big arena players - with the rest of the world outside hoping to get a ticket in. The three economic arenas are:

- The Americas, with the United States the major engine that could;
- The EU;
- Asia, with China the new big kid on the block and Japan a distant second.

I invite you to read our January 1, 2004 edition of *North of the Border* for our America's prospective. Here, I would like to look at the EU and China.

It would be fair to say that the unification of many of the major countries of Europe has been a mixed blessing. It certainly did not come together as fast or as effectively as many first thought it could, but it has brought some benefits to many of its members. Some may think that with the EU currency reaching new highs almost daily of late versus the U.S. dollar, that things were honky-dory within the EU. Unfortunately, I think that the rise is more a distaste for the dollar than a desire for the EU. One only has to look at how the EU has fared against other major currencies other than the U.S. dollar to know that the world hasn't decided to beat a path only to the EU door.

One reason the path wasn't beaten is the recent failed Constitution Summit. EU



members, Spain and Poland, have blocked plans to give bigger EU country members more voting power that would take into account population size of each member country. Germany and France have led the move for this enactment. This failed attempt came just five months before 10 new, mainly formerly-communist countries are to join the current 15-nation bloc. The December collapse was part of a traumatic year for EU members who saw themselves split over the Iraq war. The EU budget rules were bent despite protest of some members, Britain delayed its entry indefinitely and Sweden voted against joining the EU. Additionally, there appears to be a two-tier membership with France and Germany in the "Big Boys" camp and the rest on the outside looking in.

Ireland's Prime Minister, Bertie Ahern, has taken over the EU's rotating presidency this month. Do not expect much from him or the EU until shortly before the next regular EU summit in March. The battle over voting power within its complex weighted voting system is not going away. In fact, many fear gridlock once the bloc expands into Eastern Europe, which has a population of about 450 million people. Ahern will sit front and center as some members are expected to propose the following:

- A reform whereby most decisions would pass if backed by a majority of EU states representing 60% of its population,
- A desire to have a long-term president of the European Council of EU leaders,
- An EU foreign minister to represent the bloc on the world stage,
- Simplification of legislative procedures currently on ice.

This past November, Mr. Jean-Claude Trichet took over the reigns at European Central Bank (ECB). The former Banque de France Governor now oversees monetary policy for the world's second largest economy, home to 305 million people and soon to more than double. Investors worldwide would pay heed to what he and the ECB do and do not do. The ECB has done a good job on:

- The introduction and implementation of the new currency,
- Establishing credibility in financial markets,
- Keeping enforced mandate on inflation ceiling of around 2%.

The ECB still needs to work on:

- Stimulating economic growth, which has been stuck below 1% throughout 2003,
- Clarifying who is responsible for what in any banking crisis within the EU,
- Work more closely with EU finance ministers,
- Appearing to do a better public relations job.

Unfortunately, I think that the rise is more a distaste for the dollar than a desire for the EU.

Bottomline:

A poll in September 2003, showed that the majority of its member countries have not embraced the EU. Only 48% of EU

citizens viewed membership as a “good thing,” down from 54% earlier in the year. Even France, a country that was a leading advocate for the formation of the EU, saw less than half their population poll favorably.

China: It isn't going to settle to be the “Avis” amongst global economic leaders.

A recent Goldman-Sachs report predicted that by 2050, China, combined with India, Russia and Brazil, could be a bigger economic power than the G-6. While many Chinese-related equities experienced nice gains in 2003, most investors have still not recognized what a formidable economic power China has become. It is certainly worth noting that back in the 1980's, Japan was touted as the next super economic power only to witness it fall into a deflationary spiral that still has not fully ended. But China is an entirely different story. Its exports have grown eightfold between 1990 and 2003.

In America, there is a growing perception that just about everything we buy is made, or at least assembled, in China. This has caused a dramatic trade deficit between our two countries. One of the reasons that China has been able to grow so rapidly as an economic power is its ability to pay extremely low wages to its people. Chinese wages are only about 93% lower than the wages paid in South Korea and Taiwan and 97% lower than of those paid in the U.S. One would surmise that such low wages would greatly limit much of a consumption market in China but the Chinese economy is already huge. Its market for TVs, VCRs, handset telephones and motorcycles are larger than our own. And despite producing more steel than the U.S. and Japan together, it still imports steel. There is also little doubt that the strong commodities market in 2003 was greatly enhanced by China's growing need for energy, food metals and fabrics.

Precious Metals – A 21st Century Resurrection

As noted earlier, there is a growing call for protectionism here in the U.S. Many believe China is a perfect example for it. I believe that protectionism may sound good politically, but it performs poorly in the real world. The Bush administration's decision to slap unilateral quotas on imports of Chinese textile products, combined with threats to do even more, is not good for either side. Unfortunately, already over half of all anti-dumping cases brought by U.S. companies are against China.

Many countries have a significant trade deficit with China. But at least China hasn't seemingly tried to keep it just a one-way street. It has seriously opened its doors to foreign direct investment. In 2002 alone, it saw the second greatest amount of such investment flow in the world. And let it be known that foreign companies and joint ventures between foreign companies and China account for about 50% of China's exports and about 60% of its imports.

And, for those Americans who took advantage of lower interest rates, send a thank you card to China. China has purchased more than \$100 billion in U.S. government securities, which has help keep rates low. China's, Japan's and other central banks in Asia continue to channel a substantial amount of their domestic savings into U.S. securities, which in turn, have helped fund our current account deficit.

Bottomline:

Like it or not, China better be way up on your list of important economic factors. It is still not an easy investment environment, but it is only a question of when, not if, Chinese-related investment vehicles will be parked in most American investment garages.

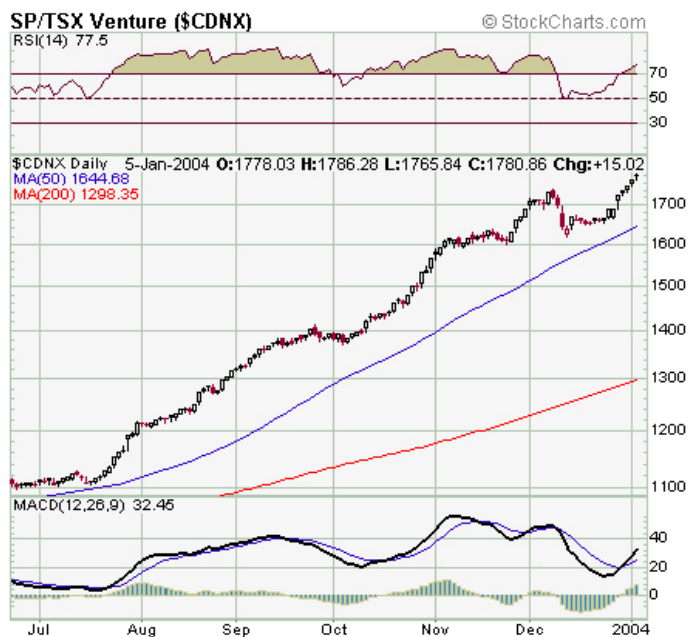
After saying goodbye to the metals and mining share industry at the beginning of the new millennium (and not missing much), I have returned to that arena this past spring. Proving that timing is

everything, tremendous good fortune was heaped upon me and those who chose to make this investment arena a significant part of their overall portfolio. While the "Don't Worry, Be Happy" crowd on Wall Street cheered the equity markets rebounds, the "Better Worry, Be Prepared" gold bug crowd saw their God, gold, resurrect itself in 2003. Some of them were heard praying, "Hail Gold, full of pace, the hoard is with you."

In an era where most investors' only question to their advisor is, "What have you done for me lately," the \$64,000 question is whether gold and the other metals continue to rise or whether it will revert to its reputation for most of the last 20 years - fizzle out into a deteriorating bear market before most can make a buck or two with it.

While, thankfully, I missed little during my three-year absence from the metals market, it did allow me a chance to reflect on the arena where metals-related investments are marketed. Upon returning to that arena, I discovered that much was still the same. A dozen or so "experts" were the featured "authorities," one or two of them gone and replaced by new faces. Many of the junior resource companies had come and gone or changed their names and restructured. And while some new corporate management faces were apparent, it was still pretty much the

*"Hail Gold,
full of pace,
the hoard
is with you."*



same gang - only the companies that they run or work for had changed. It may seem fairly large within this arena, but the metals and mining investment arena is quite small when compared to most other investment vehicles. If one misses three years in the technology sector, one would need a program to know the current players.

With gold making some real noise for the first time in years, the vast majority of “newsmakers,” who were called upon to explain the reasons, are still pretty much the same gang that it has been for a long time. So why does this matter? I believe that many of the old gang has battle scars. They have lived through very tough times and most have old predictions that they hope that no one recalls. While there will always be the ones who keep predicting that gold will hit the moon, and like a broken clock eventually be right at least twice a day, many of them are hard-working professionals who have rightfully taken the “better to be a live chicken versus dead duck” approach to gold forecasting. After having the rug pulled from underneath them so many times, they have this nagging thought in the back of their head that gold will once again hit a brick wall and go backwards after that. It’s very understandable.

I happen to believe that this metals markets

is going a lot higher and lasting a lot longer than most imagine as you read this. Knowing that you can’t expect a typical Wall Street suit to believe this as rip-roaring, simultaneous gold and equity markets just do not happen over the long term. It is hard to find someone with this belief other than the gold hawkers who have been predicting gold will equal the DJIA and other sky high numbers their entire careers. Now it’s fair to say that I, too, am biased, since part of my livelihood is working with resource companies that benefit from higher prices. Let it be known that I choose to come back to this arena not out of necessity, but on the belief that a powerful bull market in metals was upon us and I wanted a front row seat.

Gold – It has followed the ups and down of the U.S dollar during the second half of 2003 and that shouldn’t change much for the foreseeable future. I suspect that we will eventually see some serious currency intervention on behalf of the U.S. dollar. And while gold can use that as an excuse to correct some, the forces behind this upward move is far stronger than just a play off of currencies. One of those forces is the recognition that real U.S. interest rates are negative, which is highly stimulative and, sooner or later, they are going to lead to higher inflation rates. Coming off such a low rate, the increase can

Resource Stocks

be perceived as large and the “Don’t Worry, Be Happy” money will flow into the gold market. When I reentered the gold market at around \$325, my original target was \$500. In my heart of hearts, it appears only a question of when, not if, this target is taken out.

Silver – The orphan among metals, it has ridden behind the noise coming from gold but nevertheless has done okay. I expect it will remain behind gold until we get to the latter stages of the bull market.

Platinum – I called it the “stealth bull market” and it had one of the quietest rides to above \$800. Believe it or not, it can reach \$1,000, but much of the upside has been achieved. This is not to say it will fall hard. Lots of money remains on the table for those companies that explore and produce it.

Palladium – I believe that it has bottomed and it will have a nice upward move in 2004 and beyond.

Base metals – You’ve come a long way, baby, from the days of the 1997-98 Asian crisis and the Sumitomo Corporation scandal. While commodities, in general, had a very good year, base metals did great. The Gold Fields Mineral Services (GFMS) base metals index rose over 40%. While the U.S. economic rebound helped, it was Asia’s, and particularly China’s, high growth rates and ambitious infrastructure spending that has been the locomotive pulling this market up. No real reasons to think it can’t continue in 2004.

Bottomline:

Precious and base metals have done well but are expected to continue their respective rises for the foreseeable future. While some goldbugs remain disappointed that the mainstream financial media has paid little attention to the metals run, I for one, am grateful. When they do and your cabbie or dry cleaner starts telling you that they’re making a killing in the metals markets, the time to sell will be acute.

2003 was a very good year. No, make that a very, very, very good year. After what seemed like an eternity of agony, the resource players who survived were well-rewarded for their staying power. Triple-digit returns were not uncommon in 2003. While I doubt that we will see similar results in 2004, the big mistake for most will be to be under-weighted now in this sector. The biggest gains are likely to come from companies that are able to expand an initial discovery into a far bigger resource. Base metal plays should have equal representation with precious metals ones in your portfolio.

The following companies have compensated us for our services. While I must be considered biased in my opinions, be advised that no amount of compensation can make me say or do anything that I would not do or say if I were not compensated. Please read their individual initial coverage reports on our website for particulars. All share prices are Canadian.

Anooraq Resources ARQ-TSX \$2.79 - Our initial coverage called ARQ “a textbook play.” Since then, the company has completed several more chapters and is at an all-time high. Resource players should make the development of ARQ a blueprint for all future junior resource selections. I am hard-pressed to find any valid reason not to anticipate ARQ completing the final chapter and either be bought out or becoming a full-fledged producer. www.anooraqresources.com

Cassidy Gold CDY TSX \$1.24- The Company just announced follow-up drill results to its initial discovery holes earlier in 2003. I have called CDY the next Nevsun and I do believe these latest results (with more to follow) do nothing to change that opinion. I Believe CDY will be among the story stocks for 2004. www.cassidygold.com

CanAlaska Ventures Ltd CVV-TSX \$.41- Perhaps New Zealand should be added to the

company name as the company has recently announced the first of several anticipated ventures into New Zealand. The CVV's of the world are awaiting the drop down effect one can usually count on in the resource game. This is when the second and third tier players, many who haven't been active in the early stage of the bull run, have put together projects that bring interest from those who made money on the majors and the first tier resource plays. It is when the moose pasture plays run that it will be time to get out. www.canalaska.com

Freegold Ventures Ltd ITF TSE \$.62- I have participated in a private placement and bought large amounts of shares in the open market. The hope is that several of the company's long time assets will now move to the forefront with the sharply higher metal prices. If so, the expectation is a triple-digit return. www.freegoldventures.com

Geologix Resources GIX-TSX \$1.53- Every once in a while, an early stage resource play comes along that legitimately allows your mouth to start watering in anticipation of a major drill program. I have an unusually high confidence level with GIX, due to the fact that old brokerage clients and I did very well by backing certain GIX officers when they were at another company. Normally, such confidence is just asking for egg on one's face, but I would be less than 100% honest if I did not note my extremely high level of hope. Some very smart people are watching their upcoming drill programs with great anticipation. www.geologix.ca

GLR Resources GRS TSE \$.63 and RJK Explorations RJX.A TSX \$.16 - At the risk of offending one of the other companies here, I must tell you that these two companies are my "sentimental favorites." Run respectively by brothers Bob and Glenn Kasner, these two gentlemen are among the finest, honest, hard-working people I have met in the resource business. If any two men are deserving of success, these two men are. GRS is still trying to close on the funds needed to bring its Goldfields project into production.

With so few shares outstanding versus the stage it's at in development, GRS is deserving of patience. RJK continues to get good sniffs on the exploration front and has been able to raise enough money to put more holes in the ground again and again. Here's hoping 2004 is both their years. www.kasnergroupeco.com

International Lima Resources LMG-TSX \$.33 - While I'm only on board in the last month or so, I've been most interested in the developments at the company. Even more impressive, was the reaction I got from some very respected players in the resource game to my association with LMG. They spoke very highly both of the projects and the people at LMG. 2004 appears to be the break out year for LMG. www.newfoundlandgold.com/lima

Minterra Resource Group MTR TSX \$.23 - MTR is a classic example of my resource maxim that management is the absolute key to any resource company. John Greenslade is one of those tireless guys who wears his company on his sleeve and puts his own money where his mouth is. John Greenslade has had great success with a private company and some how manages to stay in the batters box long enough to finally get a sweet one to swing at. Look for John and MTR to be up and swinging this spring on their B.C. project.

Northern Dynasty Mines NDM TSX \$6.39 - Without question, NDM is the blue



chipper of all my companies. While Friedland and Ivanhoe get most of the headlines, NDM has gone about its business in bringing to the forefront one of the best gold-copper projects in the world today. And, unlike Ivanhoe, the stock remains very attractive relative to its assets. I must tell you that I often wonder why NDM's booth at gold shows is not totally swamped. With a floor of exhibitors hoping they have (or will have) a million or two million ounce deposit, NDM can proudly showcase a resource only the other exhibitors can dream of. Why NDM is not in just about all types of resource portfolios is beyond me. Yes, it had a spectacular gain in 2003, but triple-digit return potential still appears on the horizon barring a collapse in the gold and copper price. www.northerndynasty.com

Pacific Northwest Capital Corp PFN TSE \$1-The blue chip play of the Harry Barr stable, PFN just goes about its business of demonstrating it can end up the third platinum-palladium mine in North America. The recent financial support from Endeavour Mining Capital, along with a growing institutional following, can make 2004 PFN's best so far. www.pfncapital.com

Phoenix Matachewan Mines PMM TSX - V \$.19 - Our 2003 no-brainer double is well on its way to achieving that and more. The Company remains optimistic that it will be in production in 2004. In the first quarter, its acquisition and exploration plays can move to the forefront of this developing story. www.phoenixmatachewan.com

Patrician Diamonds PXC TSX-V \$.21 - Pardon the pun, but I have speculated that PXC is a "diamond in the rough" among Canadian diamond plays. I suggest you read our initial report of December 10, 2003 because I would not be surprised to see this play begin to show up on the radar of diamond players in 2004. www.patriciandiamonds.com

Personal Plays

The following companies are stocks that I have purchased in 2003 with hopes of \$\$\$ for 2004. Remembering that I have a wall full of \$\$\$\$ stock certificates from previous years, please approach them with due caution.

Ialta Industries ILTA.C \$.74 - A most interesting early stage technology play that was brought to my attention by one of the corporate finance people that I trust in Canada, Mr. Steve Khan. Very little to say at this point other than to put it on your watch list for 2004.

Strathmore Minerals STM-TSX \$.64 - Here too, Steve Khan played a role in my involvement. Some of the major players in the resource game have participated in recent private placements, along with yours truly. The uranium market has had a major turnaround and this company is among a small group of public vehicles to play it. They have also put some interesting metals plays into the mix and I suspect it can become one of the highlighted plays among the newsletter crowd, especially since some of the writers are participants in the placements. That's how it goes in the resource arena. www.strathuranium.com

And Finally..

What certain people and groups do with two cows:

Democrat

- You have two cows
- Your neighbor has none
- You feel guilty for being successful.
- You vote people into office that put a tax on your cows, forcing you to sell one to raise money to pay the tax.
- The people you voted for then take the tax money, buy a cow and give it to your neighbor

- You feel righteous.
- Barbara Streisand sings for you.

Socialist

- You have two cows
- The government takes one and gives it to your neighbor.
- You form a cooperative to tell him how to manage his cow.

Republican

- You have two cows.
- Your neighbor has none
- So?

Communist

- You have two cows.
- The government seizes both and provides you with milk.
- You wait in line for hours to get it.
- It is expensive and sour.

Capitalism, American style

- You have two cows.
- You sell one, buy a bull, and build a herd of cows.

Democracy, American Style

- You have two cows
- The government taxes you to the point you have to sell both to support a man in a foreign country who has only one cow, which was a gift from your government.

Bureaucracy, American style

- You have two cows.
- The government takes them both, shoots one, milks the other, pays you for the milk, and then pours the milk down the drain.

American Corporation

- You have two cows.
- You sell one, lease it back to yourself and do an IPO on the second one.
- You force the two cows to produce the milk of four cows.
- You are surprised when one cow drops dead.
- You spin an announcement to the analysts stating you have downsized and are reducing expenses.
- Your stock goes up.

French Corporation

- You have two cows.
- You go on strike because you want three cows.
- You go to lunch.
- Life is good.

Japanese Corporation

- You have two cows.
- You redesign them so they are one-tenth the size of an ordinary cow and produce twenty times the milk.
- They learn to travel on unbelievably crowded trains.
- Most are at the top of their classes at cow school.

German Corporation

- You have two cows.
- You engineer them so they are all blond, drink lots of beer, give excellent quality milk, and run a hundred miles an hour.
- Unfortunately, they also demand 13 weeks of paid vacation per year.

Italian Corporation

- You have two cows but you don't know where they are.
- While ambling around, you see a beautiful woman.
- You break for lunch.
- Life is good.

Russian Corporation

- You have two cows.
- You have some vodka.
- You count them and learn you have five cows.
- You have some more vodka.
- You count them and learn you have 42 cows.
- The mafia shows up and takes over however many cows you really have.

Taliban Corporation

- You have all the cows in Afghanistan, which are two.
- You can't milk them because you can't touch the cow's private parts.
- Then you kill them and claim a US bomb blew them up while they were in the hospital.

Polish Corporation

- You have two cows.
- Employees are regularly maimed and killed attempting to milk them.

Florida Corporation

- You have a black cow and a brown cow.
- Everyone votes for the best looking one.
- Some of the people who like the brown one best, vote for the black one.
- Some people vote for both.
- Some people vote for neither.
- Some people can't figure out how to vote at all.
- Finally, a bunch of guys from out-of-state tell you which is the best-looking one.

New York Corporation

- You have fifteen million cows.
- You have to choose which one will be the leader of the herd, so you pick some fat cow from Arkansas

*Have A Most
Blessed 2004*

**Grandich Publications, LLC.
P.O. Box 243
Perrineville, NJ 08535
www.Grandich.com
phone • 732-642-3992
email • Peter@Grandich.com**

Grandich Publications, Inc. provides research, analysis, and investor relation services for certain of the companies featured in the articles appearing in its publications (each a "Featured Company"). Featured Companies may pay fees to Grandich Publications, Inc. that may include securities-based compensation that would appreciate if the company's stock price rises. Accordingly, there is an inherent conflict of interest involved that may influence our perspective and provide an incentive for publishing favorable information with regard to a Featured Company.

The material herein is for informational purposes only and is not intended to, and does not constitute the rendering of investment advice or the solicitation or an offer to buy securities.

The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). In particular, when used in the preceding discussion, the words "plan," "confident that," "believe," "scheduled," "expect," or "intend to," and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the Act. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward-looking statements. Such risks and uncertainties include, but are not limited to, future events and the financial performance of the Company which are inherently uncertain and actual events and/or results may differ materially.

Third party statements contained herein and information contained in any source cited herein are not endorsed by or adopted by Grandich Publications, LLC, nor has their accuracy been verified by Grandich Publications, LLC.

Please see individual company reports on website for specific disclosure on compensation received from Companies.