

INFORMATION LINE

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Perspective

As we leave the summer behind, our thoughts are directed to the fall with controlled excitement. The winds of change are blowing, and we are not just referring to the November elections.



Michael Checkan

The stock market continues to confound the experts. Tremendous amounts of investors' money continues to flow in, inflating the bubble, while the insiders bail out. The all time highs for the DOW and NASDAQ remain intact and each successive rally produces a lower high. The decliners generally outnumber the gainers. The market is reminiscent of an aging prizefighter, where each swing requires more effort in a losing battle.

The economy keeps chugging along, despite the FED's interest rate-raising antics. Recently, the GDP grew by 5.2%, surprising everyone and dispelling the myth of a soft landing. Americans are still spending more and saving less as evidenced by a record trade deficit of \$350+ billion annually. Sooner or later the recipients of those Dollars will question their underlying value.

The developed countries continue to chip away at the individual's privacy. Using the usual guise of "money laundering," the OECD and FATF have attempted to blackmail foreign banks and tax havens into cooperating with their tax collecting agenda. At the expense of personal privacy, they will implement the one world society. Their initiative has been launched and will continue in the months ahead.

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It Is Better in the Bahamas

by Michael Checkan

Some of our long-term associates in the Bahamas have taken an interesting approach to the offshore world, which we find worthy of note.

Sterling ACS, Ltd. handles the standard fare of financial services, including international asset protection structures, bank accounts, investments, and credit cards, from its offices in Nassau. They recently gave their customers a novel "twist," however, that has the offshore industry talking.

As one of Sterling's partners, H.W. Woltz, recently said in a speech at the joint Oxford Club/Sovereign Society conference on Paradise Island, "The offshore world is in a state of flux. The days of 'smoke and mirrors' are over. 'Hiding' money is not a workable option for citizens of aggressive tax nations such as the U.S., Canada and England for the long term. Establishment, or even the transfer of legitimate business to our lovely nation of the Bahamas, however, is a very real option."

Sterling has established the first B to B (business to business) ISP project in the Bahamas, in conjunction with its E-Commerce Park and University. The significance of this move is due to recent judicial decisions in both the U.S. and Canada, which have determined that the tax domicile of Internet transactions is determined by the location of "the server."

Both U.S. presidential candidates, Governor Bush and Vice-President Gore, have indicated that they will seek internet taxation, so any "moratorium" on such is guaranteed to be short lived. Aside from this, however, there are the issues of regular corporate tax, which are highly relevant right now, though Internet taxation can also be avoided by this strategy in the future.

Arthur J. Spindler, a partner in the "big six" firm of Arthur Andersen, recently gave an official opinion in his paper titled, "International Taxation of E-Commerce Merchants," where he stated, "The existence of a server in a particular jurisdiction can itself constitute a permanent establishment." He further opined that the server must be owned or leased by the company seeking "establishment," but this issue has already

been well covered by Sterling in its co-location operation.

"We do not expect this window to last, once the U.S. and Canadian tax authorities realize the dire revenue implications this carries, so we have moved to completely dispel any possibility of such questions, by creating a completely Bahamian solution that would pass any jurisdictional test, now or in the future," said the Honorable Darrell E. Rolle, prominent Bahamian attorney and senior partner in Sterling ACS, Ltd.

This solution includes a Bahamian corporation owning the server, having its business based in the Bahamas at the E-Commerce Park, processing the credit card charges there, and even fulfilling the service or product from the Free Trade Zone in Freeport.

Freeport has the most advanced deep-water port in the Western Hemisphere, which is news to most people. The Bahamian government has quietly built this mammoth project less than 100 miles off of Florida's coast over the past 10 years. It can accommodate "super-tankers" from the Far East, which cannot even dock in Miami. Port costs are greatly reduced and the "turn time" in port is less than Miami by days, offering further savings.

Since roughly 85% of the products sold in the U.S. are manufactured elsewhere, this strategy is a perfect solution. "Services" can be handled similarly by contracting them to a U.S. entity, with the charges (and majority of profit) remaining in the tax free jurisdiction of the Bahamas.

"If you are making and wholesaling hammers out of Duluth, we probably can't help you. If you are selling a service or an imported product, however, or can

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Currency Corner

Around the World in 58 Days

by Michael Checkan

I depart for my second around-the-world trip in the past two years (August 15-October 11, 2000). This time around I'll be traveling from East to West with stops in Europe, the Middle East, Asia and Australia.

I plan to be your eyes and ears meeting with gold bullion banks in London, Zurich and Mumbai (Bombay); and in Perth, Australia the leading supplier of gold coins and bars to Asia. Also, I will meet with the Swiss Gnomes (bankers, independent asset managers) in Zurich, Neuchatel and Geneva to discuss the outlook for the Swiss Franc and the Euro.

I find that it is important to visit the financial centers of the world to get a better understanding of events taking place and what is going to take place in the securities, precious metals and foreign currencies market.

London is still the financial center of Europe. I have appointments to meet with bankers and brokers to discuss securities investment opportunities in Europe. The profits in the stock markets were made in Japan during the 1980's and in the United States in the 1990's. I personally feel that the next big play is in the securities markets in Europe.

The biggest physicals market in the world for platinum and palladium is not London, New York or Hong Kong but Zurich, Switzerland. This summer the price of platinum was at \$610.00/oz. compared to last summer's \$ 347.00/oz. or a 75% increase. However, this pales compared to the price of palladium this summer, which traded at \$ 855.00/oz. compared to last summer's \$ 320.00/oz. an amazing increase of 167%. What do the bullion banker's in Zurich think about the future of these platinum group metals?

The asset management banks and independent asset managers of Switzerland manage directly or indirectly one third of the offshore wealth in the world. Their buying and selling of financial investments have an impact on the foreign currencies market. The US Dollar has been significantly increasing in value during the past 5 years. Just recently the Dollar reached 10-year highs against the Swiss Franc, and it almost reached all-time highs against the Euro and some of the legacy currencies. The question now is whether the US Dollar has peaked or will it continue to outperform the other currencies of the world.

I will report my findings to my office in the suburbs of

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	<u>Year Ago</u>	<u>Current</u>	
Swiss Franc	.6431/Franc	.5857/Franc	➡
British Pound	1.6099/Pound	1.5080/Pound	➡
Japanese Yen	.0094/Yen	.0092/Yen	➡
Euro	1.0383/Euro	.9090/Euro	➡

The Hard Stuff

The Status of the Precious Metals

by Glen O. Kirsch

The months of June, July and August are typically when the precious metal price lows occur for the year. Summer holidays and slackened demand are usually accountable for the phenomenon. This has occurred 12 out of the last 15 years.

So, if the summer is generally the low point for the market, then the autumn is usually identified with increasing demand, holiday buying and rising prices.

As we close out the summer, Gold and Silver are trading near their lows, \$270/oz. and \$4.95/oz. respectively. Platinum and Palladium are experiencing continued acute Russian supply problems. Platinum is near 11-year highs, \$590/oz. and Palladium recently set a new all-time high of \$855.10/oz.

Some of the news, which affected the metals this summer were:

Gold ...Slackened summer demand and ongoing Central Bank sales translate into lower prices. The British continued to give away their gold stockpile at bargain basement prices, while the Swiss quietly started their 5-year gold plan reduction. Even Austria got on the selling bandwagon. The huge short position is still overhanging the market and will eventually manifest itself in higher prices. Y2K selling seems to have run its course, and worldwide demand continues unabated with India as the leading importer.

The Gold market, for the first time in quite awhile, showed Dollar correlation, i.e., weaker Dollar, higher Gold prices and vice versa. The \$290/oz. price may be the time to begin accumulating gold again while the storm clouds are still only on the horizon.

The Perth Mint Certificate is still the most cost effective method of physical gold ownership while providing geographic distribution of assets.

Platinum ...Russia continues to dominate this market even though they only contribute about 25% to the world supply. There were rumors that between 200,000 and 500,000 ounces were shipped to market (usually Switzerland), but rumors are difficult to substantiate. The Palladium price movement has significant influence on the Platinum price because the metals can be substituted in industrial applications. Please see this month's Inside Story by Aran Patrick Murphy of Platinum Guild International, Inc. for interesting market commentary. The Perth Mint Certificate Program for platinum has not experienced backwardation of pricing.

Palladium ...Russia continues to tease the market with talk of impending sales and the market responds with new all-time high

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	<u>Year Ago</u>	<u>Current</u>	
Gold	\$258.00/oz.	\$274.30/oz.	⬆
Silver	\$5.16/oz.	\$4.98/oz.	➡
Platinum	\$375.00/oz.	\$570.00/oz.	⬆
Palladium	\$365.00/oz.	\$755.00/oz.	⬆

INSIDE STORY

Platinum Investing in the New Millennium: The Rules of the Game Have Changed

by Aran Patrick Murphy

Gold is trading near historic lows, and platinum is trading near historic highs. This simple observation makes gold look relatively undervalued, while making platinum look relatively overvalued. However, there is much more to platinum and gold prices than yesterday's trend.

Both platinum and gold are hedge metals because both offer investors diversification benefits in a portfolio, and can help guard against the vagaries of inflation. The two markets diverge significantly beyond that. Gold's price is a function of investor sentiment because above-ground supply dwarfs newly mined supply. Platinum prices, on the other hand, are a function of newly mined supply versus world consumption, with over 50% of the world's platinum going to meet industrial needs. There are no readily available above-ground stocks of platinum to be drawn upon.

Recently, the importance of the platinum-gold spread has dwindled to near zero. Investors seeking a technical price signal for when to buy platinum used to follow the platinum-gold spread, buying as much platinum as they could afford on the rare occasions when platinum traded below gold. Even without the aid of a crystal ball, it is fairly safe to say the opportunity will not come again anytime in the near future.

So what "rules" should investors follow when buying platinum? Consider the following:

Platinum is at a discount to palladium. This condition makes platinum a longer-term buy, not too different from the old rule of buying platinum when it was at a discount to gold. Why?

- There is less platinum mined than palladium.
- Irregularity in palladium supplies are pushing industrial users back to platinum, as in the autocatalyst industry.
- Platinum has a more diversified demand base than palladium. Palladium consumption consists almost entirely of electronics, autocatalyst, and dentistry demand. Compare this to platinum, where it is estimated that 1 out of every 5 consumer goods is made with or in a process that uses platinum.

The recent spike of platinum to over \$600/oz. did not last long before correcting to the \$560s. Few will be surprised, however, if

platinum were to make more forays into that territory, and beyond, as the year closes out. This makes platinum at under \$625/oz. a potential play for the active investor. Why?

- Adjusted for inflation, platinum prices in the nominal \$550s to \$625s are at a reasonable price range.
- It is not uncommon for platinum to see price swings of over \$20, or to climb over \$50 in a matter of days.
- Demand is enormous, fed by the booming global economy.
- Russian supply remains sketchy and may be cause for a deficit again this year.

Inflationary concerns are best countered with platinum. Why?

- The last US inflationary crisis (in the 1970s) saw platinum's price outperform gold.
- The volatility of platinum prices allows investors to get more diversification benefit per dollar invested than with the other diversifying investments.
- Technological advances in fuel cells, information technology, and space vehicle construction utilizing platinum ensures extended long-term demand, particularly for those considering retirement savings type investments.

The new rules for when to buy platinum are a reflection of a different market environment than that of a few years ago. The advent of the Platinum American Eagle and rule changes regarding the inclusion of platinum coins in Individual Retirement Accounts make the market even more accessible to individual investors now than it ever has been. Armed with these new vehicles and a better understanding of current market dynamics, investors have ample opportunity to trade to their best advantage.

Aran is an economist with Platinum Guild International, Inc. in New York City. More of Aran's commentary can be found on ASI's website, www.assetstrategies.com.

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Washington, DC. These insights will be reported to you on a monthly basis this fall through the INFORMATION LINE. Also there will be weekly reports from abroad to be found in "Michael's Corner" on the ASI website, www.assetstrategies.com.

To visit far away places is not only beneficial for my clients, ASI INFORMATION LINE and website readers, but it is fulfilling for me personally to see the world and its people with my own eyes. I look forward to my trip and to sharing my findings with you. □

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somehow make such sales 'Net' transactions, we have the answer," stated Woltz.

Sterling still actively seeks banking clients and offers asset protection structures, but sees this as the future, and has been the first to move to embrace it.

Mark Lacas, a leading Internet "guru" and creator of the Loftcam project based in Seattle recently stated, "This is the Internet strategy. Nothing else I've seen comes close."

Equally exciting is the fact that the new Bahamian Stock Exchange is soon to be on-line. An estimated \$440 billion is on the side-lines

waiting for its official opening in September 2000, which will create an incredible pool for the IPO's, already being readied by Sterling's legal team.

"Issues can be cross-referenced on the NASDAQ, making this the perfect solution for Internet start-ups and related E-ventures anywhere," stated senior Sterling partner, Mr. Rolle.

"Thus far, all preliminary issues have been significantly oversubscribed, indicating the hunger for investment in the Bahamas," he continued.

For more information about Sterling's project, or how to contact them, call Glen Kirsch at our offices, at 1-800-831-0007. □

BITS & PIECES

EXCISE TAX REFUND ON SWISS ANNUITIES

We brought this to the attention of our readers in the April, 2000 Information Line. ASI's friend and tax expert, Art Auerbach, researched and provided the analysis for that article.

A number of clients applied for their refund and have notified us that the IRS has been returning their forms. Why? But of course, they want additional information. We forwarded the IRS response to Art for his review and comment.

Art said the IRS would like 1) the name of the insurance company, 2) the policy number, 3) the tax period of the payment, and 4) evidence the insurance company is in Switzerland.

The easiest thing to provide, which would satisfy the IRS request, would be a copy of the annuity policy. Art emphasized that it would be advisable to not only send the copy of the policy, but to also include again the copy of the #720 form that was filed and a copy of the canceled check (front and back). □

E-Mail Alert

Since 1983, ASI has had the pleasure of providing Information Line to our friends, clients and associates. After 17 years, our readership now exceeds 15,000 people in over 20 countries.

This success is a direct result of your support and ASI's commitment to provide the very best available information. In an effort to reinforce and enhance our commitment to you, we have developed and launched our website, www.assetstrategies.com and are now able to deliver Information Line via e-mail.

We ask your assistance in two ways. First, help us keep your mailing address up-to-date by alerting us to errors, change of address or duplicate copies. Second, if you would like e-mail delivery, please send us your e-mail address to: assetsi@assetstrategies.com. □

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Energy costs continue to spiral. Oil is still flirting with \$30/barrel and only 24 months ago was at \$11/barrel. Remember the 1970's oil shock? You have to wonder how an almost 200% increase will not permeate through the economy, yet the government experts claim we have no inflation. Health care and education costs continue to spiral upward, and we have no inflation. The money supply grows by leaps and bounds, and we have no inflation. Who do we believe? Do these so called experts think we are stupid?

The Dollar continues to flex its muscles. The Euro is near record lows. The Swiss Franc is near 10-year lows. Gold and silver are near 1-year lows. How long will this charade last? It's anyone's guess. The stock market is a balloon waiting for a pin.

Frankly, we are amazed at the public's gullibility, but P.T. Barnum had it right. "There is a sucker born every minute." Some things never change. □

"We live by the gold for which other men die."

Matthew Prior (1664 - 1721) □

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- ◆ You can do "TAX SWAPS" with foreign currencies.

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prices (\$855.10/oz.). Be careful of this market that Russia dominates, mining over 75% of the world's supply. They have a history of getting top dollar when they sell. This market is not for the faint of heart!

Silver... The Chinese have been liquidating Central Bank stockpiles with a resultant increase in above-ground warehouse stocks. However, the supply/demand deficit continues. In fact, world silver demand is outstripping world production at an increasing rate. The short position in silver is even larger than in gold, which may result in an explosive price advance. Many feel that silver below \$5/oz. is a good buy. The lowest we have seen silver in about 3 years is \$4.60/oz. Consider buying 90% bags or 100-ounce bars for physical possession and bullion with a Mocatta MDO or Perth's PMCP.

Enclosed with this issue you will find a brochure about Australian precious metals product. □

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