HOWLETT RESEARCH Corp.

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RESEARCH REPORT

Bralorne-Pioneer Gold Mines Ltd.

(BPN – TSX Venture)

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Jeff Howlett is a financial analyst who for over the past 10 years has provided research services to companies lacking adequate coverage. Mr. Howlett was previously affiliated with a major Canadian investment firm specializing in Mergers & Acquisitions and has received a B.Sc. in Economics from the Wharton School of the University of Pennsylvania..

Progressing to Restart the Historic Bralorne-Pioneer Mine, located in B.C. Several mining options available. Gold Loan Recently Announced to Advance Project.

Property History

1800's – 1971. The Bralorne-Pioneer has a long history of production, with mining of ***4.15 million ounces of gold*** and 0.95 million ounces of silver from 7.9 million tons of ore, for a recovered grade of ***0.53 oz / ton***. This began primarily in 1932 when a series of mergers occurred among small producers. The mine closed in 1971 due to low gold prices ($35/oz).

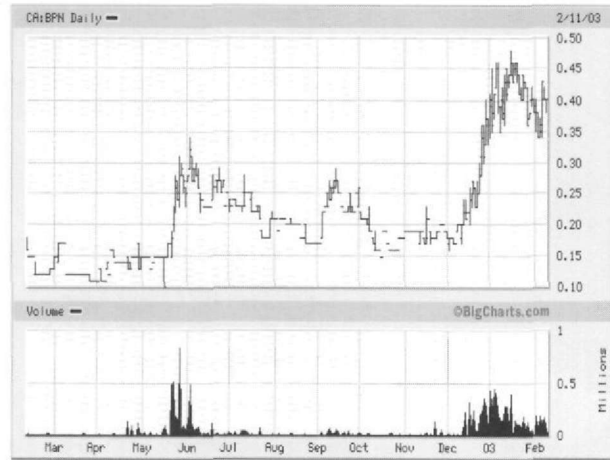
1980's. Higher gold prices sparked renewed interest in the property and several million dollars were spent to define reserves suitable for mining. Efforts focused on "readily available" material

1991-92. Avino Mines acquired the property and combined it with its adjacent Loco property, on which new veins had been discovered in the 1980's. New calculations for mineable material above the 8th level were pegged at 308,000 tons.

1993 - 96. Bralorne-Pioneer optioned the property – work focused on retesting known areas as well as discovering extensions to the new vein systems, both of which were successful. "Probable" and "possible" reserves were calculated at ***440,000 tons @ 0.30 opt***. (note – all figures do not qualify as reserves under Policy 43-101). ***Studies began to restart mining operations, a mine permit was obtained, a mining camp was constructed, and equipment was purchased to mine and mill at a rate of 150 tons per day***. Low gold prices served to halt that program.

Current Program – 2003 / 04

With recent higher gold prices, Management has reactivated the project with a view to commencing initial mining as envisioned earlier. Positive exploration results at the Peter vein offer new, additional mining alternatives and point to potential to continue mining into the future.



Share Data ($Cdn):

Recent Price:	$0.38
52-week Price Range:	$0.10 - $0.48
Shares Outstanding (1/09/03):	19.9 million
Fully Diluted Shares (1):	27.3 million

(1) Incl.7.4 million options & warrants @ Cdn $0.11 - $0.30.

Capitalization ($Cdn):

Market Capitalization:	$7.56 million
Total Debt (Convertible @ $x.xx):	$2.99 million

Corporate Information:

CEO:	Louis Wolfin
Phone:	(604) 682-3701
Website:	www.bralorne.com
e-mail	mining@bralorne.com

WE BELIEVE THAT BRALORNE-PIONEER OFFERS SIGNIFICANT POTENTIAL FOR SEVERAL REASONS:

- Past mining experience has been favorable (i.e. competency of rocks, vertical continuity of veins, high recoveries).
- Recovered grades have invariably been higher than drill-indicated grades due to the nugget effect present.
- Past studies have been mainly concerned with reserves required to support a mining / milling operation over a 5 – 8 year life. New work at the combined Bralorne / Loco properties has successfully established that the new veins are faulted extensions of those historically mined.
- It is known that the previously identified and newly discovered veins have a significant strike extent.
- Virtually all past studies have pointed to strong potential to find significant additional resources.
- There is now in place much of the required infrastructure and mining / milling assets to quickly and efficiently start operations.
- Gold Loan financing recently announced.

Management expects that past studies, combined with positive new exploration results makes available a variety of mining options. Assets now in place makes it cost effective to justify initial development and processing combined with additional exploration to continue mining. Should financing be actualized, we believe that a new era in the Bralorne Pioneer mine is possible.

February 24, 2003

THE BRALORNE PIONEER PROPERTY (100% owned)

Background The property is located about 100 miles (160 km) due northeast of Vancouver in southwestern B.C.. Road access is via highway 40, an all-weather gravel road from Lillooet. Summer access is possible via the Hurley River logging road from Pemberton. Elevation in the area is approximately 2,500 feet and is characterized by rugged mountain terrain.

The property as it is presently constituted was actually assembled over many years, beginning in roughly 1930, when a series of mergers between individual producing gold mines began. The last major merger occurred in 1959 with the coming together of _Bralorne Mines_ and _Pioneer Gold Mines_. The property now comprises 2422 hectares.

Production History ***The Bralorne-Pioneer property represents the largest single producer of gold in B.C., having produced approximately 4 million ounces of gold from ore averaging 0.5 oz / ton from 1932 – 1971.*** Highlights of its production history can be summarized as follows:

- The Bralorne and Pioneer properties produced ***4.15 million ounces of gold*** and 0.95 million ounces of silver from 7.9 million tons of ore.
- Recovered grades were ***0.53 oz / ton gold*** and 0.12 oz / ton silver.
- Of the 52 veins discovered in the 40 years of operation, ore was produced from the shoots of 19 – which averaged 2 meters wide, 50 – 200 meters in strike length, and had dip lengths of up to 2000 meters, exhibiting ***an exceptionally large vertical continuity***.
- Ore represented, on average 47% of the veins.

> ***Nature of The Deposit***
>
> The property hosts orebodies which occur in a series of quartz veins, most of which are bounded on the northeast by the northeast dipping _Fergussen fault_ and on the southwest by the southwest dipping _Cadwallader fault_. The majority of the veins strike N60-70W and dip north at 60°-85° except for the important crossover veins (27 and 85) which strike N/S and dip west. The principal veins are found within Bralorne Intrusives and Pioneer Greenstones.

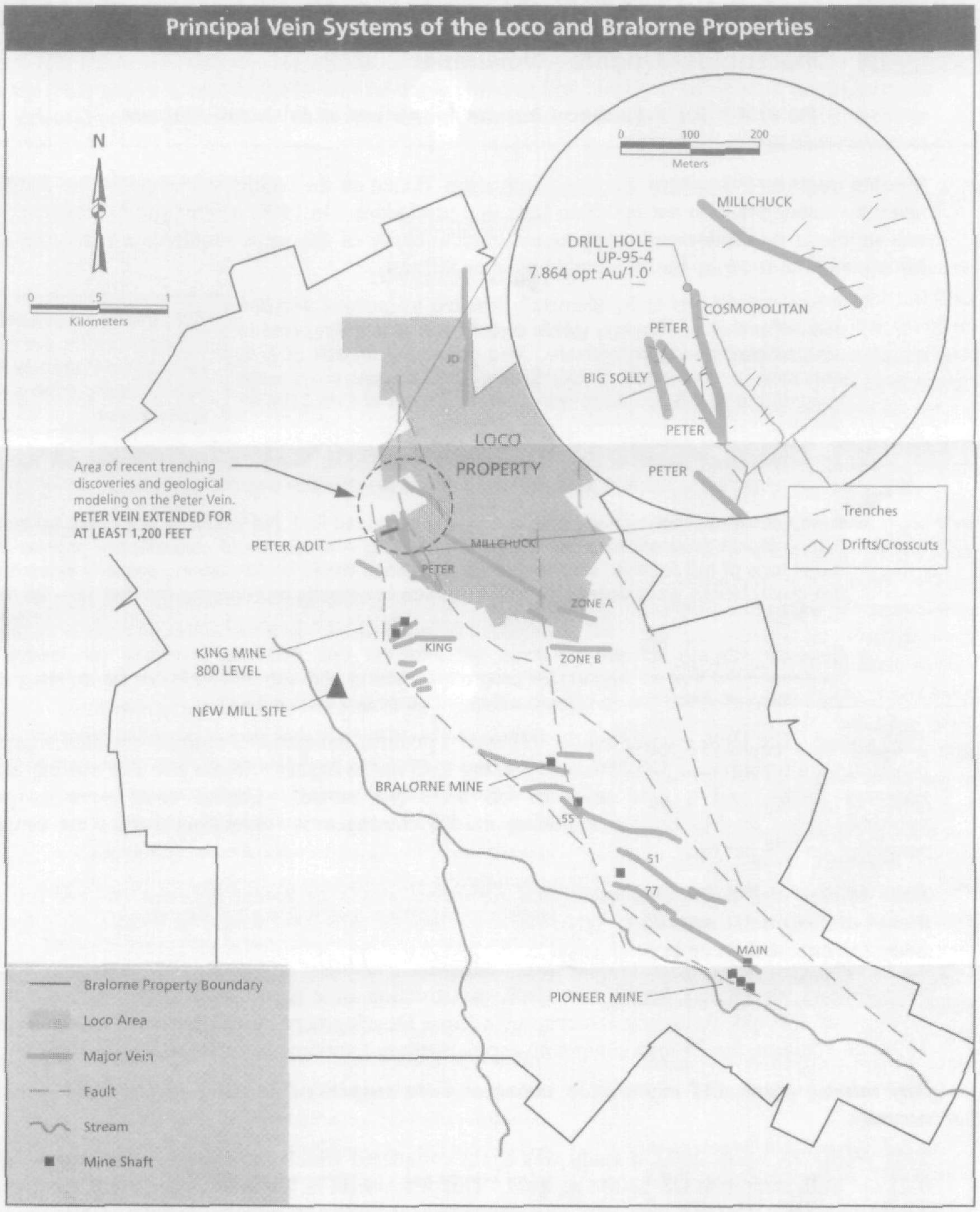
- The mine closed in 1971, with a low $35 per ounce gold price. (note – in 1973, after cessation of mining operations, the ore potential of the 77 vein at depth below the Bralorne 4577 decline was estimated as 89,000 tons at 1.12 opt Au in the first 300' below the bottom level of the mine).

Later Exploration Programs **Renewed Interest in 1980's**. From closing in 1971, the property lay dormant until 1980 in an era of higher gold prices, when it was optioned by _E and B Exploration_. Through 1991, E&B carried out 3 major exploration programs (1981/82, 1984, 1988) together with associated companies (_Mascot_, _International Corona_, _Golden North_) which included:

- Extensive exploration and rehabilitation programs from 1980 through 1991 at the Bralorne Mine.
- Exploring veins with remaining reserves above the 2600 level and particularly above the 8th level (the lowest adit level).
- A mineral inventory calculation above the 2600 level (1988) – _only the ore blocks where there were no major rehabilitation problems were used for **"readily available"** ore_ – further geological evaluations pointed to an additional 5 years of ore that were not so "readily available" and ***potential reserves of up to at least 10 years of production were outlined***.
- In 1987, an adit was collared and a cross cut driven to intersect the Peter vein about 100' below surface followed by 215' of drifting along the vein – chip samples reported 0.38 opt over an average width of 3.4' (including 0.611 opt over 105' with a 3.4' width). At this time, it was concluded that further development and engineering studies would be required to determine an economically viable reserve.

Additional Properties Added. In 1991 - 92, an important change occurred, when the property was acquired by _Avino Mines_ and combined it with the adjoining _Loco property_, on which Avino was actively exploring two principal veins, _Peter_ and _Millchuck_, discovered in 1987. Avino rehabilitated access to areas of indicated reserves and conducted a sampling program.

Together with _Procon Mining and Tunneling_, indicated reserves were calculated above the 8th level (at the Bralorne mine) as ***308,000 tons*** with significant potential for expansion. A $1.1 million program of drilling and underground development was proposed.



Bralorne-Pioneer Becomes Involved

Initial Exploration. In 1993, the new *Bralorne-Pioneer* company optioned the entire property from Avino to earn a 50% interest in the property by spending $1 million over 3 years. There were a series of programs to follow up on the earlier 1992 recommendations. Mapping and geochemical soil sampling was carried out over the former Loco property and areas of the original Bralorne property (southeast and northwest) in order to explore for ***extensions*** of the Peter and Millchuck vein systems. A follow up 700' of underground drifting on the Peter vein in the area of extensive overburden ***identified ore grade mineralization where prospecting during the life of the operating gold mine (and diamond drilling) had been unsuccessful***.

In 1995, Bralorne Pioneer tested the Bralorne-Pioneer block with 5 underground holes from the 400 level, 4 of which intersected significant mineralization. At that time, it was concluded that the overall reserve figure combining probable and possible reserves was ***476,835 tons grading 0.31 opt over an average width of 4.7 feet – this represents the figures now used for internal mine planning puposes to restart mining.***

Studies Begin to Place Mine Back in Production Based on the results to that point, the decision was taken by management to put the mine back into production. In 1996, a Plan and Production Schedule was prepared by Bralorne Pioneer as a technical study of the steps required to place the Bralorne Mine back into production. Highlights were as follows:

- It was determined to be financially feasible to process ***440,000 tons*** of ore at an average grade of ***0.30 opt*** at a milling rate of 150 tpd over an 8 year minelife. This generated an IRR of 27% assuming a gold price of US $380 / oz. Capital costs were assumed to be $6.39 million with operating costs at Cdn $104.88 per ton.

This study, combined with new information on the Peter Zone and hard assets already in place, is very encouraging from a mining perspective.

- This study used blocks of ground previously identified as "readily available" during the 1980's, all of which were above the 800 level (the level above which water was self draining).
- It was proposed that higher grade ore blocks be mined first, but would be accessed by means of a 3 to 4 month program of cross cutting and raising – which would conveniently provide the initial 8,000 tons of mill feed (to ensure that all operations would be functioning properly when the higher ore grade blocks were accessed. Higher grade ore blocks represented the first 18 – 24 months of mill feed.
- Because virtually all ore reserves fell into the drill indicated category (or lower), it was recommended that an aggressive program of raising and sub drifting in ore be an integral part of the mining program (i.e. to sample within the proposed stoping blocks).

1995 report. The 1996 internal report followed a positive independent study completed a year earlier based upon a resource of ***325;000 tons*** grading ***0.35 opt***, a higher ***450 ton per day*** milling rate, ***90% recovery factor***, and a gold price of US $375 per ounce. Capital costs were estimated at approximately Cdn $10 million including a 15% contingency. Operating costs were estimated at roughly Cdn $79 per ton.

Both studies envisioned that additional resources would be found between current ore reserve blocks and previous workings. Ore reserves below the 800 level would be handled at a later stage, when the mine would be in production.

Preparations for Mining Begin. In 1998, construction of a new mill was started with an initial capacity of 150 tpd, following issuance of a Mine Development Permit by the B.C. Government in 1995. In addition, the 35 man camp with supplementary facilities was refurbished.

Any mining plans and exploration activities were suspended because of low gold prices, until recently.

2002 Work. In April, 2002, a study was again completed which envisioned processing a 7,000 ton, 0.43 opt bulk sample at US $300 / oz gold. This was useful in terms of establishing specific costing parameters for a 150 tpd mill start up. Management does not envision following this approach in favor of previous approaches to process lower grade material from other areas in the initial start up period.

In September, 2002, a new report was completed which re-interpreted the geology and mineralization in the Loco portion of the property and improved the understanding of the geological controls on gold mineralization in the Peter vein.

To date, previous exploration has identified the Peter Zone strike length to be between 2,000 to 3,000 feet in length and is known to be over 1,000 feet deep. It represents a structural extension of the Bralorne-Pioneer vein system.

Recently, Bralorne-Pioneer completed a 9-hole drilling program to investigate the newly discovered Peter Vein extension with encouraging results – virtually every hole encountered mineralization and included one intercept of 1.525 opt over 4.5' (incl. 4.329 opt over 1.5'). Given the nature of the deposits (i.e. with a pronounced nugget effect), this is encouraging.

CURRENT PROGRAM

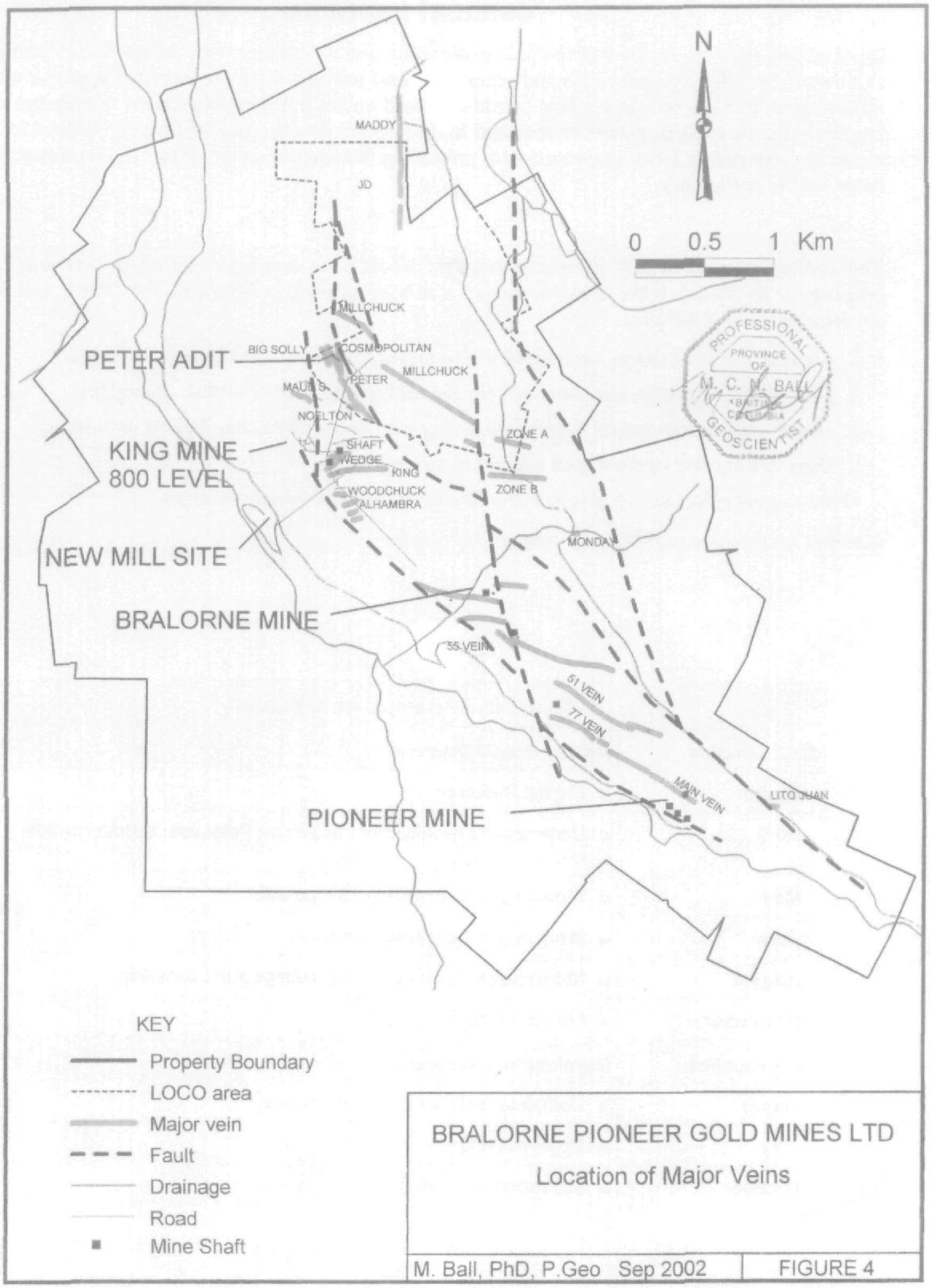
Re-establish mining. In view of the past exploration and development work, combined with positive studies on establishing operations and equipment and infrastructure present, management intends to initiate mining at the property. This would be based on the 150 tpd capacity of the present mill and largely based on the parameters established in the 1996 in house study and based on the 476,835 ton resource estimated in 1995, combined with promising information at the "new" Loco property (i.e. the Peter vein in particular).

The central issue that has been addressed is whether to continue exploring and studying the property or to complete the construction of a mining operation begun in the 1990's and begin to produce gold. It is felt that:

- ***because the hard assets associated with a mining operation are largely in place,***
- ***future mining profits can pay back the financing required to restart operations,***
- ***recent exploration points to very promising new areas and extensions of resources,***
- ***there are several options with respect to mining, and***
- ***the nugget effect makes it very difficult and costly to delineate reserves,***

it makes more sense to follow the mining approach.

Anticipated Development Schedule	
2003 Timeline	**Development Milestone**
March	• Capital Received
April	• Underground development begins on Peter vein & Bralorne 800 level.
May	• Work begins to complete 150 tpd mill.
June	• Work begins on tailings pond.
August	• Mill complete, tune up begins, tailings pond complete.
December	• Mill operating at 150 tpd.
2004 Timeline	**Development Milestone**
March	• Complete underground development.
July	• Begin mill upgrade to 300 tpd.
October	• Mill expansion complete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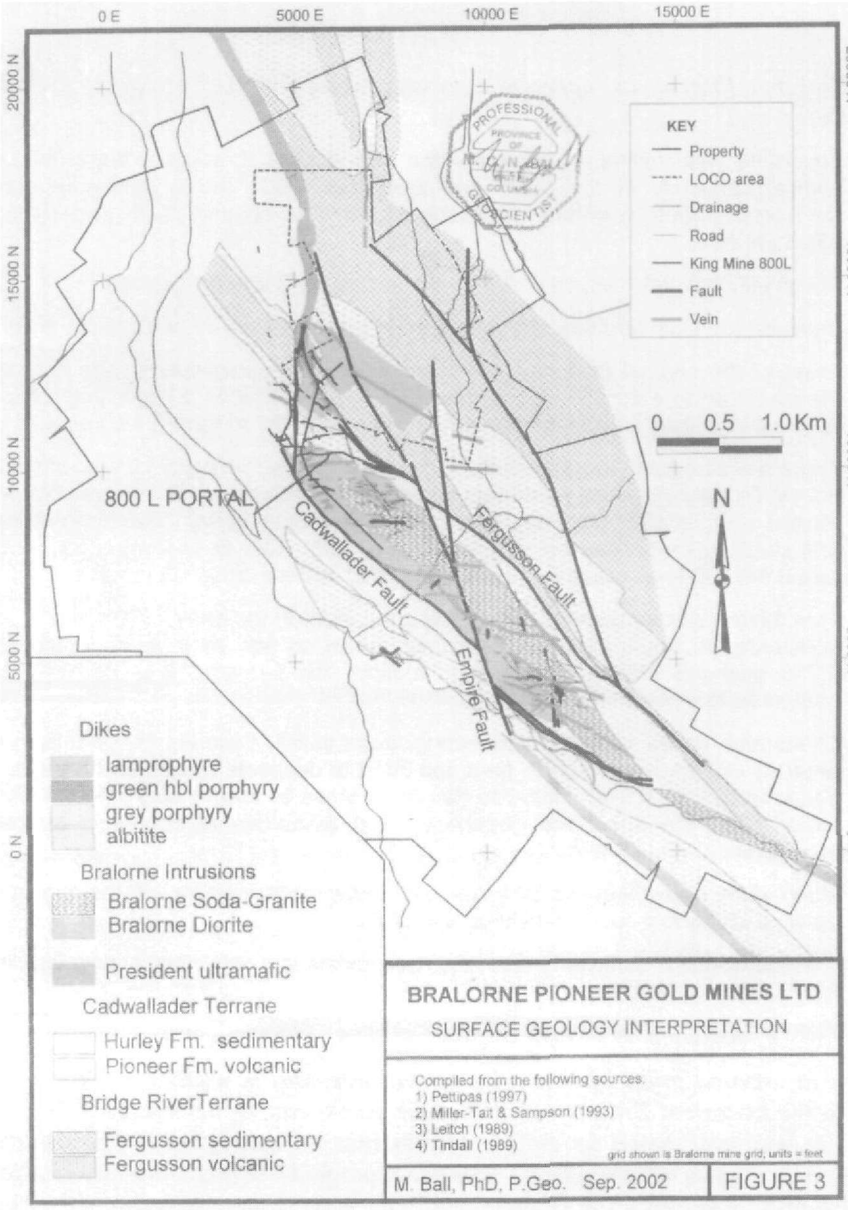
SHAFT
WEDGE
KING
WOODCHUCK
ALHAMBRA
ZONE A
ZONE B
NEW MILL SITE
MONDAY
BRALORNE MINE
55 VEIN
51 VEIN
77 VEIN
MAIN VEIN
LITO JUAN
PIONEER MINE
PROFESSIONAL
PROVINCE OF
M. C. N. BALL
BRITISH COLUMBIA
GEOSCIENTIST
KEY
Property Boundary
LOCO area
Major vein
Fault
Drainage
Road
Mine Shaft
BRALORNE PIONEER GOLD MINES LTD
Location of Major Veins
M. Ball, PhD, P.Geo Sep 2002
FIGURE 4



Zone	Status	Type	Miner. Length	Total Length	Width	Width	Depth	Grade (opt)	Continuity	Comments
Peter	1	Vein	65 m	640 m	1.3 m	1.3 m	> 300 m	0.331	98%	Continuous mineralization Over 30 m intervals & Up to 65m
Cosmopolitan	2	Vein		260 m	1.3 m	1.3 m	> 300 m	0.353	15%	Feet development in grade
Big Solly	2	Vein		140 m	1.4 m	1.4 m	> 300 m			
Millchuck	2	Vein		1280 m	1.5 m	1.5 m	> 300 m		8%	Success ratio for 13 holes
Maddie	2	Vein		850 m	1.0 m	1.0 m	Open	<0.839	14%	Success ratio for 7 holes
Zone A (1993)	2	Vein		240 m	0.1 – 2.7 m	0.1 – 2.7 m	Open	<0.376	36%	Success ratio for 9 trenches + 2 holes.
Zone B (1993)	3	Vein		400 m	0 – 3.0 m	0 – 3.0 m	Open	<0.318	40%	Success ratio for 17 trenches + 3 holes.
Zone C (1993)	3	Vein		83 m	0 – 1.2 m	0 – 1.2 m	Open	<0.464	60%	Success ratio for 5 trenches
Zone D (1993)	3	Shear	Open	Open'	3 m	3 m	Open	0.321	100%	Success ratio for 1 trench

Status:

1. Significant assays from underground
2. Significant drill intercepts
3. Significant trench assays
4. Geochemical Anomaly

CONCLUSIONS

We see Bralorne-Pioneer as representing a very interesting and prospective situation as a result of several factors:

- Favorable past mining experience – the rock is very competent, there has been a great deal of vertical continuity of the veins and orebodies within them, recoveries have been high, and recovered grades have been invariably higher than drill indicated grades because of the nugget effect present.
- The significant strike extent of the known and newly discovered veins.
- Veins on the Loco property are faulted extensions of those in the Bralorne King mine.
- Areas of the original Bralorne ground adjoining the Loco property were not intensively explored in the past due to extensive overburden cover. Past studies were mainly concerned with reserves required to initially support a mine / milling operation for roughly 5 – 8 years.
- There are areas with known reserves, but were ignored primarily for cost purposes (i.e. ❶ access to the old Pioneer workings would require both time and capital, ❷ reserves below the 800 level would require shaft rehabilitation, dewatering, etc., ❸ accessing the Countless adit would require a major drift slashing / rehabilitation program costing $250,000, ❹ accessing the 52 and Countless veins below the 400 level would likely require a 1000' access cross cut in waste).
- Past mining was suspended due to low gold prices in the early 1970's and it is known that potential mineralization exists between the known zones as well as at depth. Although there have been 2,200 diamond drill holes drilled to explore the property, it is believed to be underexplored compared to other mines in Canada.
- Exploration points to several promising areas which, because of the known nugget effect at the property will require additional time and effort to delineate as formal "reserves". It may maka more sense initially to spend capital to develop access to known structures which (based on years of experience), stand a good chance to host resources amenable to successful and profitable extraction.
- Much of the equipment and infrastructure is now in place and a 150 tpd mining operation can be set up at relatively low cost. Permitting is in place.
- It is believed that sufficient information now exists to justify initial mining with multiple opportunities for resource extraction.
- From a financial point of view, a major Gold Loan financing has recently been announced.

From an investment point of view, the central question is whether additional prolific structures similar to the historical Bralorne and Pioneer mines can be discovered. Although this is certainly difficult to determine based on current information, as management will readily state, we too are encouraged by studies which indicate significant potential between the historical mines, at depth, and at the new ground between the Bralone and Peter zone (Loco property) where there have been very encouraging results. Bralorne-Pioneer is in an enviable position of being able to restart a sizable operation at relatively low cost, a strategy which is not unwise.

For these reasons, there could be potential for mining at the property to continue for the foreseeable future.

Bralorne-Pioneer

A New Life for Canada's Richest Mine

Bralorne-Pioneer Gold Mines Ltd. [BPN-TSX Venture] is in the process of re-activating one of British Columbia's most illustrious gold mines. Actually, the project comprises several underground mines – the Bralorne, Pioneer, King and other smaller mines – as well as several new nearby gold discoveries. Under the guidance of well-respected mining financier Louis Wolfin and son David, the team has assembled the most prolific of the mines in the Bridge River Valley, completed extensive exploratory work and constructed a mill to process the ore and produce concentrate.

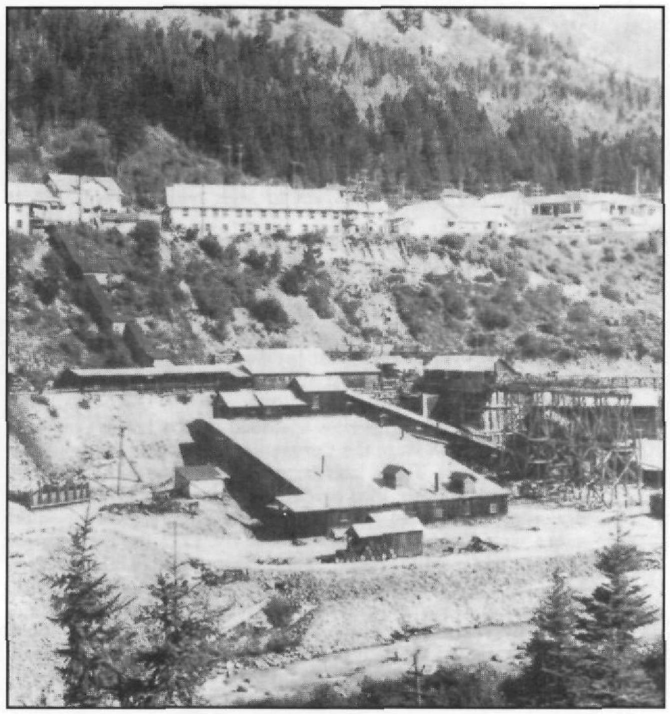
The Bralorne, Pioneer and smaller mines, located about 350 km northeast of Vancouver, produced about 4.1 million ounces of gold between 1897 and 1971 when operations finally ceased. In total, the mines recovered well over US $1.5 billion in gold at today's prices. During the 1930s, the mines became famous as boomtowns as thousands of men headed west seeking relief from the Great Depression. But that was not all the mines were famous for – it was the high-grade gold mineralization. Indeed, the richest ton of ore ever mined in Canada came from the Bralorne Mine – a staggering 2,000 oz.gold/ton.

These mines were extensive – some 100 miles of tunnels were driven into the mountains and to a depth of about one mile. The Bralorne mine would be as deep as five Empire State buildings stacked on top of each other. However, this did not mean the gold was mined out when mining ceased. On the contrary, modern exploration techniques have discovered extensive zones of new gold mineralization – much of it the typical high-grade gold of the past. For example, on surface the Peter Vein returned assays up to a very rich 16 oz.gold/ton. In addition, underground exploration at the Peter Zone has encountered an average grade of 0.38 oz.gold/ton over a strike length of 215 feet with an average width of 3.4 feet. Of significance is the fact that the Peter Zone correlates with a similar zone intersected 300 metres below surface on the 800 Level that assayed 0.40 oz.gold/ton over a width of 6.0 feet and a strike length of 100 feet. This opens the possibility that the Peter Zone can be substantially expanded.

Consulting geologist Dr. Matt Ball, P.Geo., has identified several areas on the Loco property in the northern part of the claim group that host promising exploration targets for expansion of Bralorne gold mineralization, including the Peter, Big Solly, Zone B,, Millchuck, Maddy and Cosmopolitan veins. Dr. Ball notes that the pattern of veins in the Loco area mimics that of the Bralorne-Pioneer veins, making them "a structural extension of the Bralorne-Pioneer vein system." Previous exploration has already identified the Peter Zone strike length to be between 2,000 and 3,000 feet in length to a depth of over 1,000 feet. Trenching has now extended the Peter Zone by some 1,200 feet to the west.

While excellent exploration potential is important, it is the reserves already outlined that will launch the company into the producer category. To date, mineable reserves stand at 497,000 tons grading 0.37 oz.gold/ton, representing 184,000 ounces in this initial resource. The planned milling rate would be 250 tonnes per day, increasing to 450 tonnes per day. Even without the new discoveries, there are over five years of reserves at this rate of production.

Utilizing a gravity/flotation process (no cyanide or mercury), metallurgical studies have indicated a gold recovery of 94%.

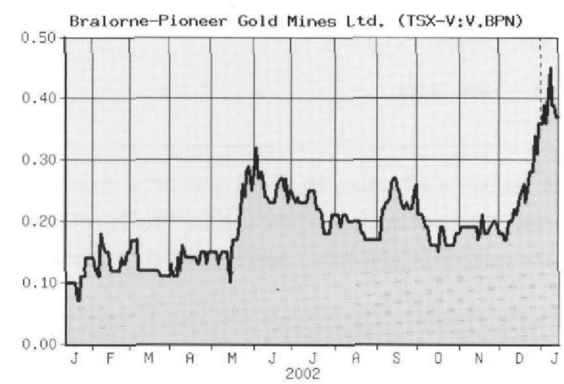


The Bralorne Mines before closure in 1971. *Photo courtesy Sunfire Publications Ltd.*

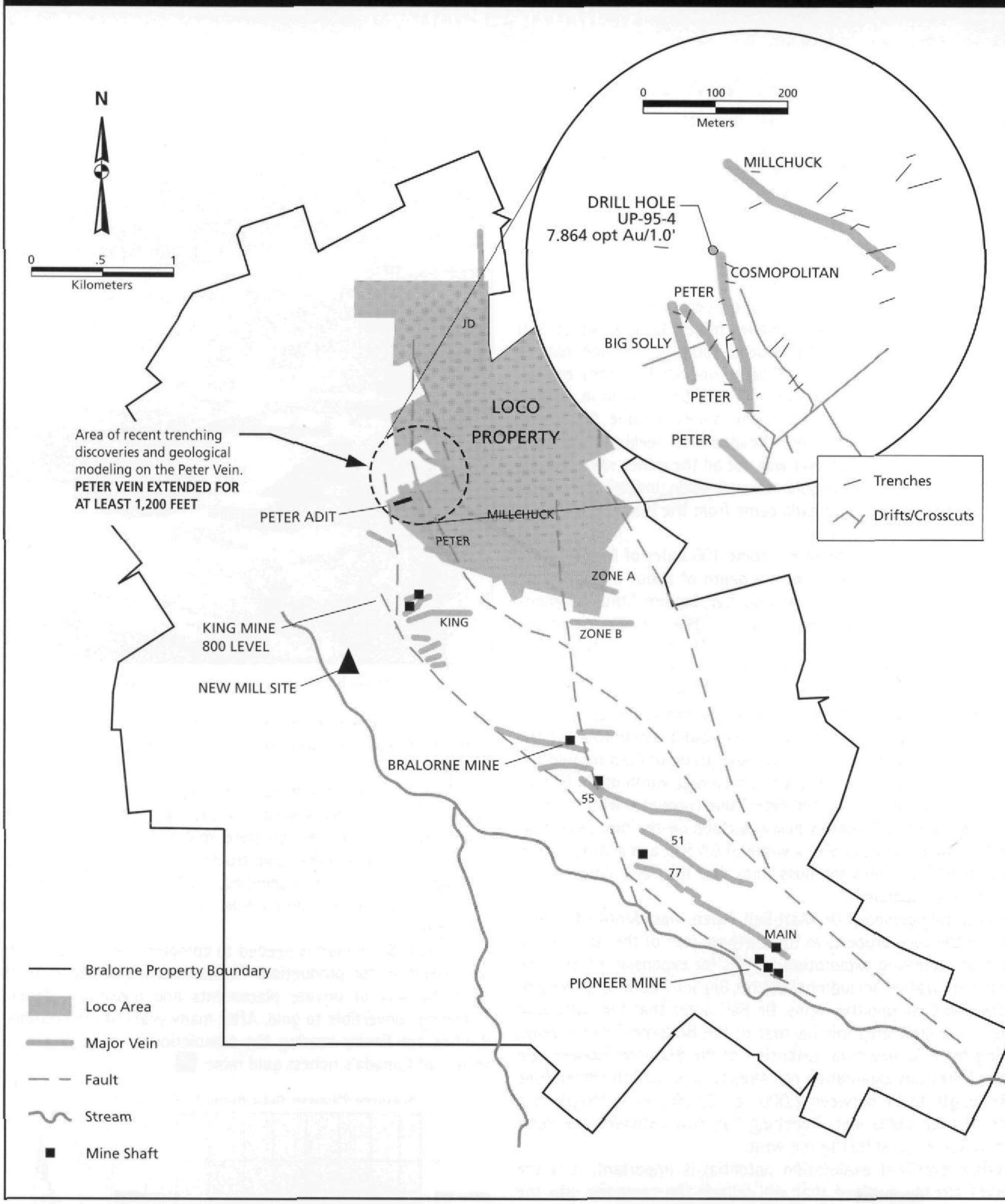
This equates to approximately 20,000 ounces of gold produced in the first year. To save refinery costs, gold bricks will be poured on site.

Most of the infrastruture to begin production is now in place – offices, bunkhouses, assay lab, cook house, power and telephone lines. A complete mill from western Vancouver Island was disassembled and trucked to the Bridge River mine site where it was re-assembled. Just the wiring remains to be completed before production can begin using a contract mining firm.

At least $1 million is needed to complete the mill and prepare the operation for production. The company plans to raise these funds by way of private placements and possibly a debenture financing convertible to gold. After many years of preparation, the Wolfins are finally nearing the completion of their dream – the rebirth of Canada's richest gold mine.



Principal Vein Systems of the Loco and Bralorne Properties



The pattern of veins in the Loco area mimics that of the Bralorne-Pioneer veins; the veins cut across a panel of rocks bounded by major faults related to the Cadwallader fault zone. A small part of the target areas near surface have been tested, but most remain unexplored.

www.bralorne.com

Shares Traded:
TSE Venture Exchange, Symbol **BPN**

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NEWS RELEASE

March 4, 2003 TSX Venture Exchange Symbol: "BPN"

The Company is pleased to announce that Ocean Resources Capital Holdings Plc. ("ORCH") has commenced trading on the Alternative Investment Market ("AIM") of the London Stock Exchange effective February 28, 2003 under the symbol "OCE".

Further to the Company's News Release of February 10, 2003, the Company entered into a £5,000,000 (approx. Cdn $12,500,000) investment agreement with ORCH. Pursuant to the agreement, ORCH will issue to the Company a total of 10,000,000 units in the capital of ORCH (the "Units") at a deemed price of £0.50 per Unit (each Unit consisting of one share and one warrant); and the Company will in return issue to ORCH a secured gold loan (the "Note") in the principal amount of £5,000,000.

ORCH is a London, UK based company which arranged up to £50,000,000 of similar loan financings to junior mining and oil and gas companies around the world, that are in or near commercial production. Under the terms of the agreement, ORCH will assist the Company in reselling the ORCH Units held by the Company to third party purchasers, such that the Company will then receive funds for its nse.

The Company will use the funds to make full and final payment to the Company's present mortgage bond holders of approximately US $1,800,000 and to complete underground development of the Company's Bralorne Gold Mine and expand existing mill to a capacity of 300 tons/day.

The transaction is subject to approval by the TSX Venture Exchange.

ON BEHALF OF THE BOARD OF DIRECTORS

"Matt Wayrynen"

Matt Wayrynen
President

Yes, But By James Grant

The Case for Gold

WALK THROUGH A METAL DETECTOR INTO THE Florentine splendor of the Federal Reserve Bank of New York. Bear left. Enter the American Numismatic Society's exhibit of rare coins, rare bills and not-so-rare credit cards. Take another left. Walk west 40 paces. Behold 751 shiny Byzantine gold coins spilling out of a toppled pot.

This is the Bet She'an hoard, 7½ pounds of gold discovered in 1998 under the floor of an ancient residence in the Jordan Valley in northern Israel. It was buried around A.D. 680, probably to avoid confiscation, Israeli archeologists say.

If he weren't so very dead, the unnamed owner of this treasure would be desolated, and his heirs would be inconsolable. For 13 centuries the coins in the pot earned no interest. What is the foregone interest on 7½ pounds of gold uninvested since the time of the fifth Umayyad caliph, Abd al-Malik?

The metal will do well in a time when inflation is heading up and short-term interest rates are negative. Don't be misled by those who say commodity prices will stay low.

Say the gold price in A.D. 680 was \$350, or its equivalent. Say the value of that gold, \$38,300, was invested at 3%, compounded continuously from that time to this. Then the foregone interest income would be no less than \$6.4 sextillion.

Now, 751 coins is not so many. The Numismatic Society claims to own more than a million coins and bills and other forms of money issued and spent over three millennia. The foregone interest income on this uninvested collection is beyond calculating.

Albert Einstein is said to have called compound interest the eighth wonder of the world. But it must be number one in the power to tantalize. If Adam and Eve had opened even a small savings account in the Bank of Eden, and if they and their descendants had conscientiously not made a withdrawal, then the human race could have long ago put its feet up and lived on the interest.

Of course, compounding is not continuous because history is discontinuous. People die, banks fail and nation states rise and fall. Money is confiscated or debased. There likely is a very good reason that 751 gold coins were buried instead of being lent out at interest. The owner traded an income stream in the bush for gold in the hand.

The paradox of gold is that it can be the finest speculation and the poorest investment. Though indestructible and lovely to behold, the barbarous relic earns no interest. And—what is much, much worse—it earns no interest on interest.

Gold was the right thing to bury in A.D. 680 and the wrong thing not to dig up and invest in Microsoft at a split-adjusted price of 18 cents a share in March 1986 A.D. (Today, 17 years later, the price is \$51, a 283 bagger, as Peter Lynch might say.) Knowing when danger is advancing and receding is the rarest insight in investing, and it helps to explain the paucity of sextillion-dollar fortunes in The Forbes 400 list.

Now, walking out of the Fed into the bracing winter cold, one is faced with the question: Is risk advancing or receding?

I say it's advancing. Nominal interest rates are low, government bond buyers are complacent and central banks are easy. Much to the dismay of finance ministries in Japan and Europe, the dollar exchange rate is falling against the yen and the euro. This is not because the Fed is objectively tight. For the first time in a decade the "real" federal funds rate is negative (i.e., a 1.25% funds rate minus the 2.4% year-over-year gain in the December consumer price index is a negative 1.15%).

Ben S. Bernanke, one of Alan Greenspan's new hires at the Federal Reserve Board, reminded a Washington audience in November that the Fed has a marvelous invention for fighting deflation. This device is called a "printing press," said Bernanke, one of America's foremost monetary economists. With it the government can "produce as many U.S. dollars as it wishes, at essentially no cost."

On Jan. 9 an auction of ten-year Japanese government bonds was 18.6 times oversubscribed, although their coupon was only 0.9%. For perspective, Haruhiko Kuroda, one of the top contenders to take over the governorship of the Bank of Japan when the job becomes vacant in March, has pledged to print enough yen to push his nation's inflation rate to 3%. And nobody believes him.

I believe him, and I believe Bernanke. And I also believe that the First Eagle SoGen Gold Fund and the Tocqueville Gold Fund (to name only two of the better-performing gold mutual funds) will go on delivering a better return than the interest-bearing securities of the governments that run the printing presses. F

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