



James DiGeorgia, Editor

“Fears over Russian oil supplies drive crude oil to over \$44 per barrel!”

“Most analysts, politicians and investment gurus refuse to recognize the tremendous risk of MUCH higher oil prices.”

- **The biggest thefts in history!**
- **Russia turns to fascism**
- **Dangerous times ahead in oil markets!**

Few Westerners pay much attention to Russia nowadays. But this is a serious mistake!

Recent events in Russia are sending shock waves through global markets. Many Russian banks collapsed this month in a wave of bank runs, eerily reminiscent of the events triggering the worldwide financial crisis of 1998. American journalist Paul Klebnikov was brutally gunned down in the streets of Moscow, for trying to expose the alliance of the Russian government with organized crime. Dozens died in Chechnya, as a savage decade-long war continues. And Russian President Vladimir Putin, who has become the country's new dictator, is now seizing control of

Yukos... the company that produces 2% of the entire world's oil.

Irrelevant events in a far-off land? Not at all, as the recent turmoil in the oil markets proves. Developments in Russia will affect your life in ways you never expected.

Why? Russia is the world's second-largest oil producer, running neck-and-neck with top-rated Saudi Arabia. It's also the fifth-largest gold producer, and a major supplier of other commodities as well. Russia exerts a tremendous influence over world markets.

This power can easily be abused, whether deliberately or not. For example, in 1998 the Russian government was completely bankrupt, and defaulted on its bonds. Many Russian banks, which had invested heavily in government debt, folded in a massive bank run. Naturally, the bonds themselves collapsed in value, and this torpedoed financial markets all across the world.

Western banks, investors, and financial companies lost untold billions of dollars in only a few days. The most spectacular victim was Long Term Capital Management (LTCM), a highly-leveraged

hedge fund. The formerly high-flying fund crashed and burned, threatening not only its investors but also the international banking system (which had loaned it billions of dollars). LTCM's default would have not only started a series of bank collapses, but also would have forced a mass liquidation of the fund's Treasury positions... tanking *that* market as well, and threatening the continued solvency of the US government (which relies heavily on a

stable debt market). Alan Greenspan narrowly avoided a complete implosion of the world financial system, when he forced 15 large banks to cough up \$3.5 billion and bail out LTCM.

Like it or not, Russia is an important player in the global economy. Events over there can have a dramatic impact on us here at home. That's why many observers are getting more and more worried about the direction Russia is going...

THE GOLD AND ENERGY ADVISOR

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Thieves, murderers, and dictators

When the USSR suddenly collapsed in the early 1990's, most observers were stunned. The shock quickly turned to joy, as the new Russian government began to create a free-market economy to replace Communism. Most Westerners assumed that Russia would soon be a peaceful, freedom-loving society like our own, and paid little attention to subsequent events.

Those initial hopes have been dashed. Instead of an orderly, democratic society, Russia turned into the largest, most violent example of sustained near-anarchy that the world has ever seen.

Russia has never had a tradition of an orderly, self-governing population (before the iron grip of Communism, Russia was ruled by a tyrannical dynasty of czars). The Russian people have always had law and order forced on them from above. So, when Communist brutality was gone, a whirlwind of chaos took its place. Never before in history has there been such rampant looting, murder, violence, and organized thievery on such a large scale, for such a long period of time.

After the USSR fell, Russian society disintegrated. The USSR had been the 3rd largest economy in the world—but from 1992 to 1997, the Russian GDP was cut in *half*, to below that of Indonesia, Brazil, and Mexico. Per capita, Russia became poorer than Peru—the Russian people didn't have it this bad even under German occupation in World War II.

Male life expectancy fell by 6 years to 57, the lowest in the industrialized world. (Females fell from 74 to 71.) Male mortality rates jumped by 53%, female rates by 27%. Males have a higher life expectancy in Mongolia and Bhutan than they do in Russia today.

Meanwhile, hyperinflation destroyed the savings of the Russian people. In the Gorbachev

era, the ruble was set equal to one dollar. By 1992, you needed 415 rubles to buy a dollar. By the year 2000: 28,000 rubles.

Even the Russian banking system is a disaster. Yet another wave of bank runs swept through the country a few weeks ago. And dozens more bank failures are expected in the upcoming months.

Finally, the Russian people have had enough. For several years, President Vladimir Putin has been building himself into a tyrannical dictator, and the people are welcoming it. As we've seen over and over through history, when a society is eating itself alive, the people welcome any thug who promises to bring order, no matter what the eventual cost. And this *will* affect us here at home.

But I'm getting ahead of myself. Let's start at the beginning...

Murderous Chaos

When the USSR suddenly collapsed, the new Russian government had to pick up the pieces. Russia was of course the largest of the USSR's "republics"—indeed, the USSR was basically just a Communist version of the old Russian empire (made up of Russia and a smattering of smaller countries around the edges). Most of these smaller countries are now independent again.

When Russia decided to become a "free market" country, businesses sprang up everywhere. This was an exciting time: the Russian people had long been suppressed in their entrepreneurial urges, and once set free, the private sector grew with explosive speed. In 1990, the private sector didn't exist: by the end of 1996, private businesses accounted for 70% of Russian GDP.

But there was a dark side to this new freedom. With over 100 years under brutal dictatorships, Russian society has long been "the rule of the strongest." Although there are police and courts of law, these are easily corrupted. So, with the old economic constraints swept away, many societal restrictions fell aside as well.

Russia quickly became a modern version of the Wild West. Criminal gangs, long suppressed under Communism, quickly swelled in numbers and prominence. Communist prisons and gulags released their political prisoners, but there were many hard-core criminals released as well. Even international criminal elements began

to move in: for example, the Russian republic of Chechnya became a hub of the international heroin trade. Even the drug lords of Columbia sent in representatives to open up the new Russian "markets." Russian gangs modeled themselves on the American mob families—they're even called *Mafiya*.

As businesses flourished, organized crime grew right alongside. Gangs extorted "protection" money from local businesses, in many cases just taking over the businesses outright. Entire chains of supermarkets, hotels, auto dealerships, wholesale distributorships, and other businesses were criminalized.

Even high-profile organizations such as banks weren't safe. Dozens of bank presidents and other officials were assassinated when they refused to knuckle under to the gangs. Eventually, organized crime owned dozens of banks throughout Russia. According to the Ministry of Internal Affairs, in the 1990's up to **85%** of all banks had links to the Russian mob.

In 1993, President Boris Yeltsin said that *two thirds* of all commercial activity in Russia was linked with organized crime, and this was the largest threat to Russia's national security. A year later, he lamented that Russia had become the "superpower of crime."

Of course, this criminalization process was not peaceful. Gangs fought viciously for control of neighborhoods and businesses. Car bombs, drive-by shootings, and snipers were common in the streets. There were hundreds of public shootouts with handguns, Kalashnikov automatic rifles, and other weaponry. Even **grenade** attacks were common. Untold numbers of innocent bystanders were killed in the crossfire.

These battles were not only between gangs. Saturated in mob violence, businesses began to use the same methods to eliminate their commercial rivals. It was easy to hire gangsters to eliminate a troublesome competitor—and many businesses did. The streets began to resemble war zones.

By one estimate, in 1993 over 70,000 people were murdered or made to "disappear" in Moscow alone. Russia was in complete chaos.

The "Great Mob War," as the early 1990's in Russia are sometimes called, eventually quieted down. The weakest gangs were eliminated, and the strongest have agreed to share power and stop fighting each other.

**Latest prices as GEA goes to press—
August 4, 2004**

Comex spot contract: silver \$6.76, gold \$392.20
 Nymex spot platinum: \$833.00, palladium \$216.00
 Nymex Light Sweet Crude Oil \$43.90

Silver coins	Dealer will buy at this price	Dealer will sell at this price
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100 1 oz. silver American Eagles	\$711	\$876
100 1 oz. common rounds	\$594	\$769
\$1,000 face value US pre-1965 coin bag (circulated)	\$4,400	\$4,700
\$1,000 face value US circulated silver dollar bag (VG or better)	\$7,000	\$8,700
US Morgan silver dollars	PCGS MS64 \$65	\$80
	PCGS MS65 \$125	\$155
	PCGS MS66 \$285	\$335

Platinum coins

U.S. Platinum Eagle:	1 oz.	\$822	\$852
	1/2 oz.	\$404	\$516
	1/4 oz.	\$199	\$211
	1/10 oz.	\$78	\$88

Gold coins

Australian Kangaroo		\$397	\$410
British sovereign (Kings)		\$94	\$106
(Elizabeths)		\$94	\$106
Canadian Maple Leaf		\$397	\$410
Credit Suisse 1 oz. gold bar		\$397	\$410
Mexican 50 peso Centenario		\$465	\$485
South African Krugerrand		\$388	\$401
US Gold Eagle:	1 oz.	\$397	\$410
	1/2 oz.	\$201	\$211
	1/4 oz.	\$98	\$108
	1/10 oz.	\$41	\$45
US \$20 double eagle:			
Liberty	Raw MS60	\$465	\$515
	NGC MS63	\$655	\$745
	NGC MS64	\$1,265	\$1,480
	NGC MS65	\$4,270	\$5,570
Saint Gaudens	Raw MS60	\$462	\$531
	NGC MS63	\$522	\$602
	NGC MS64	\$674	\$798
	NGC MS65	\$1,030	\$1,320

Prices courtesy of Finest Known, Boca Raton, FL.
 (800) 806-3468.

Today, the streets of Russian cities are quiet again, but the peace is deceptive. Anybody who threatens the rule of the *Maflya* is crushed, as the brutal slaying of American journalist Paul Klebnikov shows. (Klebnikov was the editor of *Forbes* magazine's new Russian edition. On July 9th, he was shot four times while walking to a Moscow subway station. Klebnikov had made many enemies by writing about Russian "businessmen." One of them, Boris Berezovsky, was interviewed after the murder. His chilling words were, "Klebnikov wanted to show how Russian capitalism was built. But money loves silence, especially in Russia...")

Once the Great Mob War was over, Russian "businessmen" could turn their attention elsewhere. They soon began to explore bigger, more profitable crimes—some of the biggest the world has ever seen...

How to Steal an Entire Country!

In the mid-1990's, Russia underwent the largest peaceful transfer of property in history. Under Communism, the State owned everything—once Communism fell, this would all be "privatized" and given back to the people. From 1992-1997, 77% of all large and mid-sized enterprises and 82% of all small shops and retail stores were privatized.

Imagine the impact on the new criminal class of Russia. The assets and resources of an *entire country* were about to be distributed. Forget fighting in the streets over a bank or hotel; this was an opportunity to steal the assets of an entire nation!

These new acts of thievery required both political connections and lots of capital. The "businessmen" (today known as "oligarchs") who came out on top from the gang wars were in the best position, and they took full advantage of it. Some of their crimes were staggering in size.

The heists took various forms, and were often ingenious. For example, one common technique was called "privatizing profits." First, a "businessman" created a shell company, often an offshore firm consisting of a mailbox somewhere and an employee or two. He then picked a legitimate company as his target, and got himself hired into it as an executive. This was done by bribing company officials, or threatening them with murder, or even (in the case of state-owned companies) by bribing high government officials.

Once in power, his “managerial decisions” would require the legitimate company to sell its products to his shell company, at far below market prices—often even below cost. His shell company would immediately re-sell the items into the market for full price, and keep the difference. This would continue until he’d bled the target company dry. Then, as an additional bonus, after he’d driven the target company into bankruptcy he could buy it for pennies on the dollar if desired.

For example: Avtovaz was Russia’s largest auto company. As the private sector blossomed, there was heavy demand for its cars, and they sold for an average of \$7,000 each. Each car cost \$4,700 to make, so Avtovaz should have been very profitable. Not so: a criminalized dealership network bought the cars for only \$3,500, reselling them to the public at twice the price. Avtovaz lost \$1,200 on every car it sold. Why did the management agree to this arrangement? To save their skins—a later government investigation revealed 65 murder contracts on Avtovaz managers and executives.

Another example: Aeroflot was the largest airline in Russia. When criminals took over its management, they re-routed the airline’s foreign transactions and ticket sales through an offshore shell company that they owned. The shell company charged enormous fees on each transaction, and even kept 80% of export earnings “for President Yeltsin’s election campaign” (in reality, the money was simply being embezzled). Aeroflot also started borrowing money from a chain of crooked shell companies, paying up to **95% interest** on the loans. The airline even paid millions to a small “ad agency” to make its in-flight magazine, even though Aeroflot already had an in-house agency to do these things. Aeroflot lost tens of millions of dollars.

Sometimes the thefts were even more brazen. Many of the largest Russian companies were auctioned off to the public by the government. These auctions were supposed to be open to all, but instead were usually manipulated or rigged by the company management. Sometimes, even by the bank administering the auction.

For example, Gazprom was an energy company with enormous assets: it owned one third of the world’s natural gas. It had a monopoly in Russia, and was a prime supplier to Western Europe. When it came time to privatize, Gazprom’s management decided to steal the company for themselves. They tendered most of Gazprom’s shares in remote Siberian towns, forbade foreigners to own any

shares, and refused to register any shareholders that they didn’t approve of. Managers ended up with ownership or voting control of 50% of the company, at a grossly undervalued price. (All of the shares combined went for \$250 million. Four years later, Gazprom’s market cap was \$40.5 *billion*.)

More examples: Yukos (Russia’s 2nd-largest oil company) was auctioned off. Registration for the auction was handled by Menatep Bank. Menatep’s deputy chairman actually warned others not to bother bidding: he said, “There should be no two opinions about this. We will get Yukos.”

A consortium of other banks offered \$350 million for Yukos. Menatep rejected it because the security deposit was in T-bills, not cash. Instead, a Menatep front company “won” the auction for \$159 million (the starting price was \$150 million). A few years later, Yukos was worth \$15 *billion*.

When Norilsk Nickel went up for auction, it was a fabulous prize. Norilsk owns 35% of the world’s nickel reserves, 10% of its copper, 14% of its cobalt, 55% of its palladium, and 20% of its platinum, along with a lot of coal and silver. The high bid was \$355 million. Onexim Bank, administering the auction, disqualified this bid for “insufficient financial guarantees.” Instead, Onexim itself bought Norilsk through a front company for a mere \$170.1 million; only \$.1 million above the starting price.

When the giant oil company Sidanco was auctioned off, Rossiisky Credit Bank tried to bid. Their representative wasn’t allowed into the Onexim Bank building where the auction was held. Instead, Onexim’s “sister company” won for only \$130 million (\$5 million over the starting price).

Sibneft was one of the largest private oil companies, with reserves equal to that of Mobil or Amoco. When it was auctioned, there were only 2 bidders: Inkom Bank, and a front company for “businessman” Boris Berezovsky. On the day of the auction, Inkom’s representative marched in and suddenly withdrew his bid, leaving Berezovsky’s company the winner (for \$100.3 million, a tiny \$.3 million over the starting price). Why would the Inkom representative go against the instructions of his employer, and abruptly cancel a bid he had made only days earlier? As state property chairman Alfred Kokh later chuckled, “He was made an offer he couldn’t refuse.” (Two years later, Sibneft had a market cap of \$5 billion.)

Of course, these are only a few examples—this was happening all over the country. As one trader

lamented to an American reporter:

“Today there are no entrepreneurs in Russia, in the sense of an honest and normal understanding of the term. I would compare our economy with Nigeria’s: a state-mafioso economy, when state institutions merge with criminal structures, when there are no normal laws. There is no market. There are only corrupt officials, bribes, total anarchy.”

So where was the government in all of this? Right in the middle of it! As the trader said, the Russian government is utterly corrupt. None of these crimes would have been possible without high government officials participating.

The government was a full partner with the *Mafiya* in the criminalization of Russian society. But as bad as this is, the Russian government is guilty of far worse crimes than these...

How to become a popular dictator: Murder your own citizens!

Boris Yeltsin was President of Russia for most of the 1990’s. His administration started with much hope and optimism, but soon decayed into utter corruption. Not only were members of Yeltsin’s inner circle caught up in bribery and kickback scandals, even his own daughters were implicated.

Yeltsin presided over the Great Mob War, as well as the national looting that followed. He also was responsible for the 1994 invasion of neighboring Chechnya, a brutal war that was deeply unpopular with the Russian people.

By 1999, Yeltsin was in deep trouble. Criminals and thugs had taken over the country, and his popularity rating had sunk to a mere 2%. The Russian parliament moved to impeach him—this was narrowly defeated only after a massive wave of bribes to parliamentary deputies. Yeltsin promoted and then sacked a series of Prime Ministers, finally appointing Vladimir Putin, a former KGB officer, to the position.

The press reported that the Kremlin was panicking. On July 22, *Moskovskaya Pravda* even reported a secret government plan (called the “Storm in Moscow”) to destabilize the city by terrorist acts, kidnapping, and open gang warfare. This would make the Russian people rally around

their President, or so it was hoped.

By August, Yeltsin seemed doomed. Putin, his new Prime Minister, wasn’t any more popular, and seemed destined to go down in flames with him. But then in September...

Apartment buildings in Moscow, Buinaksk, and Volgodonsk were suddenly destroyed by a series of bombings. Hundreds of people were killed.

Putin spewed profanity on national TV—I won’t reprint what he said—and blamed the bombings on Chechnya. (This didn’t make much sense, since the Chechen war had ended years earlier.) He thundered that he would hunt down and destroy every one of the “Chechen terrorists” who were responsible for these crimes.

Putin’s popularity soared, and public fury was stoked against the Chechens. Police swept through Russian cities, hunting down Chechens (many of whom had lived in Russia for most of their lives). A few Russian newspapers protested, comparing the police actions to Nazi Germany’s treatment of the Jews in the late 1930’s. They were ignored.

Despite the peace agreements that Yeltsin had previously signed with Chechnya, Russian troops stormed into the republic again. This time the Russian public cheered.

Soon afterwards, Yeltsin suddenly resigned as President, and appointed Putin in his place. Putin easily won the hastily-called election a few months later. (Not surprisingly, Putin immediately granted immunity to Yeltsin and his family for corruption and other crimes.)

Many have noticed that these tragic bombings not only saved Yeltsin’s administration, but also placed Putin into power. Many have also noticed that despite all of Putin’s bluster, he gave very little hard evidence that any Chechens were actually responsible for the bombings.

Is it possible that the government itself placed these bombs?

Is it possible that Putin was actually responsible, and deliberately killed his own citizens?

The answer is—yes! In fact, the government was caught doing it!

First of all, all four bombs had the same “fingerprint.” They all used a sophisticated explosive called hexogen, they all had the same

type and volume of blast, they all went off at night for maximum casualties, and they all were placed to instantly collapse the concrete panels of the buildings. These bombs were the work of an expert: you can't build these bombs or collapse buildings so precisely without thorough training, and the only source of this training is the military or government.

Next, where did the bombers get hexogen from? This is a tightly controlled substance: terrorists would have had to penetrate secret military bases in order to steal it, and no such theft was detected. Instead, as the press found out, a Russian government institute called the Russian Explosives Conversion Center bought a large amount of hexogen from the military and shipped it all over the country to unknown destinations.

Finally, Putin claimed that the Chechens planted the bombs in retaliation for Russia's bombing of Dagestan (another former USSR republic) a couple of weeks earlier. But experts said the bombs would have taken a minimum of 4 months to plan, organize, and execute. The Chechens had neither motive nor time to plant these bombs.

Then, on September 22, police found a fifth bomb in the basement of a building in Ryazan. The bomb squad defused it, and confirmed that it too was made of hexogen. The police quickly sealed off the city, and found the suspects... who turned out to be from the FSB (the Federal Security Bureau, formerly known as the KGB)!

All of Russia was in an uproar. On September 24, FSB head Nikolai Patrushev said that yes, FSB men had planted this bomb... but it wasn't really a bomb, it was a dummy made out of bags of sugar to "test" the reactions of the local police. When asked about the hexogen, he said the gas analyzer must have malfunctioned.

A *Novaya Gazeta* reporter was suspicious, and interviewed Yuri Tkachenko, the bomb squad member who had defused the "fake." Tkachenko said that it was *not* a fake: it had a detonator that included a timer, power source, and a shotgun shell, and in his estimation was the work of a professional. Plus, the substance in the bags was obviously not "sugar." As for the gas analyzers, these machines cost \$20,000 each. They are painstakingly maintained and calibrated, since the lives of the bomb squad members literally rely on these devices.

It seems clear that Putin's government was

caught planting another bomb, and that it had planted the first four as well. But this wasn't enough for Putin. Not only did he murder his own citizens to strengthen his own political position, he's killed hundreds of thousands of others as well...

Genocide in Chechnya

Chechnya is a small republic on the southern border of Russia, and formerly a part of the USSR. When the empire broke up, Chechnya declared independence.

Independence was really just symbolic. The borders with Russia remained open, and the ruble even remained the local currency. Russian was the common language, and urban Chechen culture is largely Russian.

Many other former republics of the USSR also declared independence around this time. But they remain unmolested, while Chechnya was invaded and has been systematically raped by Russia to this day. Why? Because of the rich oil fields of the upper Caucasus. The Kremlin is determined to maintain an iron grip on this region, and even a symbolic declaration of independence must be crushed.

As I already mentioned, the first Chechen war happened under Yeltsin. It was supposed to be short and quick. Instead, brutal fighting dragged on for eighteen long months. A truce was finally reached in August of 1996. A few months later, Chechen President Maskhadov met with Russian President Boris Yeltsin, and the two men signed a peace treaty.

Fast-forward to 1999, when Putin invaded Chechnya again. His government started proclaiming stunning victories against the "rebels" and "terrorists." But some of the Russian media weren't willing to swallow the official pronouncements, and sent reporters into Chechnya. They discovered that this war was even more savage than the first.

Grozny, the capital of Chechnya, was a beautiful, modern Russian city of 420,000. Not any more—its center was bombed into a pile of smoldering rubble. Visiting journalists were stunned that non-nuclear weapons could so thoroughly flatten a city; a British reporter called it the "Hiroshima of the Caucasus." The Russians made no distinction between military and civilian

targets: missiles rained down even onto crowded marketplaces. And the destruction wasn't limited to the capital—entire Chechen villages were wiped clean off the map.

The Russian media told of atrocities committed by their own troops. For example, Novye Aldy was a village outside Grozny. It was shelled and bombed unmercifully from December 1999 through February of 2000. The terrified inhabitants huddled in their basements: 75 of them died during quick dashes out to get water from the town's spring.

On February 4th, the Russian 15th motorized infantry regiment arrived. The troops told the villagers, "Get out now. Those coming after us are animals. Their order is to kill." The locals thought it was a trick to get them to leave their homes for easier looting, and stayed.

The next day, more soldiers arrived. The villagers assumed that peace and security would finally be restored. 68-year old village elder Akhmet Abulkhanov greeted the first one, shaking and stroking his hand. He said, "Thank you, my boy. We were waiting for you. I'm glad to see you come at last."

The soldier's reply: "Take out your teeth, old man, and bring some money as well, or I'll kill you."

Akhmet didn't understand, but others did. The locals quickly gathered together their valuables, along with what money they had: 300 rubles. The soldiers roared with laughter: "You call that money?"

The troops grabbed Akhmet and used him for target practice. They then started killing the rest of the villagers: some were shot, others screamed as they were burned alive in their barns.

Malika Bisultanova, Akhmet's daughter, was allowed to live so she could drag the bodies away. Malika was the one who told the story to the media later. Her story caused a mild scandal in the Russian press, but the government ignored it until it went away.

After Russian troops fought in a Chechen city, even the buildings left standing were unsafe. Newspapers told of people who had returned to their apartments and had been blown up by landmines hidden in their own living rooms. Other journalists noted that the only people left in the main cities were women: Russian patrols arrested every Chechen male aged 10 to 60 as a "potential

fighter" and sent them to a "filtration camp." These camps were supposedly meant to filter out the fighters from civilians, but in reality were used for torture and extortion.

Chechens fled into the neighboring republic of Ingushetia to avoid the carnage. (The Russian press reported on planes strafing the civilians as they fled—the government proudly announced that "terrorists" had been shot as they tried to flee.) Soon there were a large number of refugees across the borders.

Russian troops in Ingushetia began to force the refugees back into Chechnya, into camps in Sernovodsk. The area was strictly forbidden to the press, but a reporter from the *Novaya gazeta* disguised herself and snuck into the area anyway. She reported that the refugees were dying in massive numbers, having no food, medicine, or source of heat (this was in February, during the bitter Russian winter). She also wrote that this was a deliberate policy choice: "journalists were forbidden to go there, so that the complete elimination of the refugees could proceed in complete concealment from the world. The decision was taken at the headquarters of the forces in Mozdok..."

**"...by those same generals
who are implementing a policy of
mass liquidation
of the civilian population."**

On June 19, 2000, the *Novaya gazeta* ran an interview with Lt. General Vladimir Shamanov, commander of the 58th Army which was fighting in Chechnya. He was asked about the army's attacks on Chechen civilians:

Q: In your view, who is the wife of a Chechen fighter?

A: A female bandit.

Q: Why?

A: If she's not a female bandit then she should leave him.

Q: Is the child of a bandit also a bandit?

A: Certainly. Tell me something: how can you tell someone's wife from a woman sniper? It's all very well for you to discuss things, sitting clean and comfortable here in Moscow, gazing at the TV screen. But for me, down there...

Today, ten years after it started, the fighting in Chechnya continues. Putin's claim to be "fighting terrorism" rings hollow when compared to his behavior: flattening cities is not a method of fighting terrorism. Also, Russian brutality against civilians has only ensured the continued resistance of Chechnya: many Chechens had been pro-Russia and anti-rebel, but instead are now fighting against the vicious federal troops. Russia has created a nation of hard-core partisan fighters on her southern border, determined to fight not only for freedom but now also for vengeance. There's no easy way out of this terrible death-struggle.

But none of this has affected Putin's growing power. Instead, he's tightening his grip on Russian society, as shown by...

The Hijacking of Russian Oil

Some of the biggest oil fields in the world are found around the Caspian Sea. The richest of them are outside Russia's borders, in Chechnya and Azerbaijan. When the USSR broke up, these oil fields were no longer under Russian control. For a little while, anyway.

I've already told you what happened to Chechnya. Azerbaijan got off a little easier; its government was merely overthrown by the Russians, and a former KGB general named Geidar Aliyev took over instead. (Aliyev quickly sold the rights to Azerbaijan's oil back to Russian oil companies.)

But even privately-owned oil in Russia itself isn't safe from Putin...

As you read this, the richest man in Russia is rotting in jail. His name is Mikhail Khodorkovsky; he owns Yukos, the oil giant responsible for 2% of the world's daily oil production. Unfortunately for Mikhail, he has (or had) political ambitions. President Putin apparently felt threatened, and so Mikhail has been sitting in jail since last October. (As many have observed, the charges against him are nonsense. But that doesn't really matter, does it?)

Yukos itself has been smacked with a \$3.4 billion fine for "back taxes" from the year 2000. A few weeks ago, another \$3.3 billion was added for 2001. And, in a calculated slap across the face, the Court even added another half-billion dollars as a

fee for their "collection services."

The whole affair reeks with hypocrisy. As many observers have noted, Sibneft (the other huge Russian oil company) has done the exact same things as Yukos, perhaps even on a bigger scale. It also has paid little in taxes, it also has indulged in "non-patriotic activities," and its owner also has obvious political ambitions. But here's the key difference: Sibneft's owner (oligarch Roman Abramovich) is close to Putin, and Khodorkovsky is not.

Here's how "justice" is done in Putin's Russia. Yukos was slapped with a multi-billion dollar fine, but at the same time, all of its assets and accounts were frozen by the court. Thus, Yukos can't use any of its available cash to pay the fine. All pleas to the court about this situation were of course ignored.

Yukos has a cash flow of hundreds of millions of dollars each month. So the company has asked for a payment schedule, by which it could pay its debt over time. This request was also ignored. (As many have noted, if the government would agree to a payment schedule, then Yukos could get a bank loan and pay off the debt. A payment schedule would also make it more difficult for the government to justify the seizure of Yukos' assets. Apparently the government wants to avoid both of these situations.)

Yukos CFO Brube Misamore told CNN that he was carrying on a private dialogue with government officials, but it was suddenly shut down. Now the government won't answer any letters or proposals. Yukos even offered its 35% ownership of Sibneft as payment for the bill, but the court ignored this proposal too.

Finally on July 20th, it all became clear. Court marshals announced that they are preparing to seize Yukos' key production unit, Yuganskneftegaz, which produces 62 percent of Yukos' total output. An independent appraisal estimated its worth at \$12-\$14 billion, even at reduced fire-sale prices: far more than the \$7 billion or so of the tax bills. (This seizure is **illegal** under Russian law. Of course, this doesn't matter.) Marshals have also been sniffing around the Tomskneft production unit in Siberia—worth another \$8-10 billion or so.

Now it's plain that the whole "back taxes" routine is a sham. The government doesn't want a few billion in taxes and fines. Putin is seizing Yukos' oil, plain and simple.

The Return of the Nazis?

Because of the Chechen war, Putin's growing power, etc., some commentators are darkly warning about the return of Communism in Russia. I think they don't know much about economics. Under Communism, private businesses and most private property were illegal. Russia shows no sign of reverting to that.

But Russia *is* turning to fascism. If anything, the economic model that Russia seems to be following is the old "National Socialist" brand of fascism: private property is allowed, but key industries are owned by the State, and the State itself is run by a dictator.

You might remember that "National Socialism" is a translation of *Nazional Socialismus*, or **Nazi** for short.

More and more, Putin is following the Nazi model. He's taking over strategic industries, such as oil. He's waging genocidal warfare against a neighboring country, even against his own citizens. He's setting himself up as supreme ruler in his country—the Russian Presidency has become the equivalent of the old Russian czars. Under the new "reformed" constitution, even the parliament is basically powerless against the President. (The parliament has even been renamed as "The Duma"—its name under the old czars a hundred years ago!)

Russia has come full circle—from the dictatorship of the czars, to Communist oppression, and back to the czars again.

Not only is Putin becoming a dictator himself, he's rebuilding Russia into his own image. Formerly a KGB man himself, he's heavily promoted KGB and military veterans: they now make up 25% of the country's senior officials. Russia is falling into militarized tyranny once again...

So how does all of this affect you?

Western markets are completely unprepared for the rise of a new, fascist Russia. But your investments can and will be affected events over there. I see several possibilities:

1. Russian oil production might fall. Although Khodorkovsky is just as much of a crook as the other Russian oligarchs, under his stewardship Yukos' cost of production fell from \$12 per barrel to \$1.50—a remarkable transformation. When the oil fields go back under State control, the bureaucrats will be in charge again. Remember how much of an economic disaster Communism was...
2. Russian oil and gold might be withheld from the markets for political blackmail. As one of the two largest oil producers in the world, Russia could easily crash Western financial markets by making oil prices spike up (remember the 1970's?) Similarly, manipulating gold upward would make the US dollar implode. (And high gold/low dollar would probably even be self-sustaining, once off to a good start...)
3. Western nations aren't prepared for the rebirth of a proud, militant Russia. Although the USSR is gone, Russia was its heart and soul, and Russian pride has been stung by the collapse of her empire. Even more so now that many Eastern European countries, formerly under the heel of Russia, are now courting NATO and asking for membership. Meanwhile, the US military is completely overextended, with wars in Afghanistan, a continuing quagmire in Iraq, nuclear threats in Iran and North Korea, a shaky government in Saudi Arabia, and other potential flare-ups around the world. We have neither the manpower nor the money to check rising Russian aspirations that conflict with our own.

In short, Russia is a wounded bear, recovering her strength and determined to recover her pride. As the US/USSR rivalry dominated world politics (and finances) for decades, so will another rivalry arise soon. Keep this in mind when you hear Pollyanna investment advice about how the stock market always goes up!

I believe this is a time to harden your portfolio against future uncertainty. I recommend strengthening your holdings in precious metals, rare coins, and select energy investments. (I've recommended specific investments in past issues, and will add to the list soon.)

Of course, you won't hear about any of this from the American media, or even most other investment newsletters. I believe the perspective you're getting in the *Gold & Energy Advisor* is truly unique. More on Russia in future issues!