

Growth Stocks Weekly www.gsweekly.com

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Performance: YTDApr30: '96 116.9%; '97 28.1%; '98 36.4%; '99 39.4%; '00 180.9%; '01 -50.5%; '02 18.7%; '03 28.8%; '04 166.7%; '05 28.2%; '06 153.3%; '07 8.8%; '08 -25.2%; '09 -50.3%; '10 162.3%

Vol. 15 No. 1

Portfolio Review Edition

April 30, 2010

Current Model Portfolio							
Last Purchase	Units	Positions	Ticker	Average \$Cost	Market \$Price	Current \$Value	%Gain/ (Loss)
27Oct09	1,700,000	AKA Ventures	AKA-TSXv	0.053	0.190	323,000	259%
27Oct09	1,200,000	AKA Ventures \$0.10 w ts exp 26Oct10	unlisted	0.000	0.090	108,000	N/A
20-23Jul09	250,000	Alange Energy	ALE-TSXv	0.445	0.540	135,000	21%
15Aug-8Oct09	250,000	Altair Ventures	AVX-TSXv	0.146	0.140	35,000	-4%
12-24Dec08	25,000	Anvil Mining	AVM-TSX	0.785	3.670	91,750	368%
18Jun09	25,000	Bankers Petroleum	BNK-TSX	1.457	8.960	224,000	515%
17Feb-9Mar09	350,000	Shamaran Petroleum (formerly Bayou Bend)	SNM-TSXv	0.175	0.500	175,000	186%
6Mar10	4,240,000	Bell Copper Corporation	BCU-TSXv	0.440	0.370	1,568,800	-16%
13Jan09	1,215,000	Bell Copper \$0.10 w ts exp 31Jan11	unlisted	0.000	0.270	328,050	N/A
28Jul09	150,000	Bell Copper \$0.25 w ts exp 12Aug10	unlisted	0.000	0.120	18,000	N/A
6Mar10	875,000	Bell Copper \$0.30 w ts exp 15Mar11	unlisted	0.000	0.070	61,250	N/A
2Oct08	175,000	Bravo Venture Grp	BVG-TSXv	0.316	0.305	53,375	-3%
4Jan10	250,000	Catalyst Copper	OCY-TSXv	0.105	0.185	46,250	76%
23Nov-3Dec09	250,000	Donner Metals	DON-TSXv	0.175	0.240	60,000	37%
8Feb-22Apr10	500,000	Duncastle Gold	DUN-TSXv	0.077	0.055	27,500	-28%
25-29Jan10	250,000	Encanto Potash	EPO-TSXv	0.205	0.200	50,000	-2%
17May05	27,500	Entrée Gold Inc.	ETG-TSXv	0.812	2.750	75,625	239%
01Feb10	100,000	Endeavour Mining Capital	EDV-TSX	1.792	2.340	234,000	31%
7-15May09	250,000	Evolving Gold	EVG-TSXv	0.388	1.100	275,000	184%
1-10Dec09	250,000	Geovic Mining	GMC-TSXv	0.593	0.770	192,500	30%
11Apr07	12,500	Geovic Mining \$5.00 Wts exp 27Apr12	GMC.WT.B-TSXv	0.000	0.090	1,125	N/A
21Apr09	19,000	Gold Wheaton Gold Corp	GLW-TSXv	3.630	2.680	50,920	-26%
30Mar10	10,000	Gulfport Energy	GPOR-NASDQ	10.720	12.500	125,000	17%
25Oct08	250,000	Hathor Exploration	HAT-TSXv	1.731	1.830	457,500	6%
17Jul-7Aug09	109,250	IMA Exploration (formerly Kobex Res)	KXM-TSX	0.705	0.950	103,788	35%
4Jan06	60,000	Impact Silver Corp	IPT-TSXv	0.433	1.200	72,000	177%
21Jan09	5,000	iShares Cdn Energy Sector Index Fund	XEG-TSX	12.510	18.760	93,800	50%
10-12Feb09	140,000	Mega Precious Metals	MGP-TSXv	0.566	0.355	49,700	-37%
20Nov09	25,000	New Gold Corp	NGD-TSX	2.860	5.950	148,750	108%
13Apr07	17,500	New Gold \$15.00 w ts exp 03Apr12	NGD.WT.B-TSXv	2.340	0.040	700	-98%
16Sep09	175,000	Novus Gold	NOV-TSXv	0.155	0.290	50,750	87%
21Nov09	250,000	NYSE Netw orks	pre-IPO	0.495	0.750	187,500	52%
15Mar10	250,000	NYSE Controls	spinout, pre-IPO	0.005	0.250	62,500	4900%
2Mar06	100,000	Orko Silver Corp	OK-TSXv	0.380	1.710	171,000	350%
3Nov09	75,000	Opti Canada	OPC-TSX	1.800	2.290	171,750	27%
20Apr10	600,000	Orsu Minerals	OSU-TSX	0.346	0.240	144,000	-31%
16Apr10	125,000	Orsu Minerals \$0.50 w ts exp 15Apr12	OSU.WT.B	0.000	0.000	0	N/A
25Mar10	350,000	PanWestern Energy	PW-TSXv	0.399	0.530	185,500	33%
4-12Feb10	400,000	Petroamerica Oil Corp	PTA-TSXv	0.586	0.450	180,000	-23%
16Feb10	250,000	Petroamerica Oil \$0.75 w ts exp 08Oct14	PTS.WT-TSXv	0.180	0.165	41,250	-8%
4Dec09	250,000	Petromanas Energy	PMI-TSXv	0.250	0.580	145,000	132%
4Dec09	250,000	Petromanas Energy w ts \$0.45 23Feb15	unlisted	0.000	0.130	32,500	N/A
28-30Apr09	350,000	Rusoro Mining	RML-TSXv	0.966	0.285	99,750	-70%
2May08	40,000	Sky Ridge Resources	SYR.H-TSXv	0.245	0.325	13,000	33%
9May06	20,000	Stratoco Resources	RSC-TSXv	1.380	0.710	14,200	-49%
31Oct-11Nov08	350,000	Terra Ventures	TAS-TSXv	0.362	0.420	147,000	16%
19Jul05	10,000	UEX Corporation	UEX-TSX	2.750	0.770	7,700	-72%
26Jan09	200,000	Uracan Resources	URC-TSXv	0.664	0.180	36,000	-73%
23-25Nov09	250,000	Western Zagros Resources	WZR-TSXv	0.632	0.780	195,000	23%
22May-16Jun08	150,000	Westward Explorations	WWE.H-TSXv	0.473	0.340	51,000	-28%
		Cash Credit (Debit)				729,814	
		Portfolio Value (NAV)				7,850,597	
		Year Ago Value @ 01May2009				\$2,993,139	
		Year-to-date NAV Growth				162.29%	

Review of our April 2009 Predictions

"Deficit spending is simply a scheme for the 'hidden' confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights."

- Alan Greenspan

What we said then ... you be the judge!

On the Resource and Commodity stocks:

"Adding up the weight of evidence, this looks to be a good time to search for value amongst the raw materials producers ... On the assumption that this downturn will end, then the commodity story will become more relevant than ever. We have growing doubts that the US economy will regain its characteristic global leadership, so most US stocks today lack the attractive long-term fundamentals of the leading commodity stocks. ... Longer term we have to like the prospects for the Canadian dollar and the energy and commodity plays in Canada. Once there is global economic recovery, the monetary expansion to get out of the crisis MUST be inflationary which ALWAYS benefits hard assets, by definition."

On Gold:

"In the 1970s gold rose from \$35 to \$850, a factor of 24 times. The 21-year low set in 2001 was \$255.95 ... multiply that by 24 times and you get a gold price of \$6,200 per ounce ... the Gold/Dow Ratio was about "1" when gold peaked in 1980 meaning the Dow and gold were the same price. To restore that relationship at today's stock prices would mean when the Dow is at 7,500, gold should be at \$7,500/oz. ... the US government currently holds 287 million ounces of gold. If the government were to make each dollar redeemable by the amount of gold it possesses, we'd arrive at ... \$5,467 per ounce. Simple arithmetic, but you get the idea that the move to date has been pretty tame. The point here ... gold is at a historically cheap level when compared to the dollars out there. And when the dollar resumes its downward slide, and the expanding money supply jolts the real economy, and inflation kicks in, gold should start to reflect its intrinsic ability to store wealth."

On China:

"Maybe China is ALREADY recovering. It may be a structural depression - but only for the developed countries, particularly the United States. Maybe it's only a recession for China. And maybe it's over."

"Developing economies are reporting increases in exports after a catastrophic collapse at the end of the last year. Again, you can measure the collapse easily just by looking at the Baltic Dry Index. It fell by more than 90% last year. From its low, it's doubled - up 100%. But that still leaves it down 80% from a year ago."

"Brazil's stock market is up almost 90% from its low. South Korean stocks are up 71%. And Chinese stocks - those listed on the Shanghai exchange - have gained 50%. Apparently, someone thinks the worst is over."

On America:

"We doubt that this rebound in many of America's financial sector is the sign of a new, healthy boom. Credit expanded for half a century and the ultimate bubble has caused trillions of dollars worth of errors. Many of those errors have already been corrected, but the economy the bubble built remains unreconstructed. Same mismanaged companies, same mismanaged regulators, same mismanaged banks. Exporting nations had gotten very used to earning net sales from the U.S. of \$2 billion per day. Those earnings provided much of the speculative capital that created misallocations. A lot of that money has all but disappeared. The process of deleveraging will take many years."

On Energy:

"Within the energy group, refiners and oil sands are attractive. Most oil analysts despise refiners, and they have to continue to refit their aging refineries. But Americans are driving less, and so refiners should hold up better than other oil sectors if there's one last oil shakeout coming. We also suspect that given their safe-haven location and long term life, we may never be able to buy oil for the future as cheaply as is possible today by buying the oilsands stocks. Peak oil is real, and it is here, now simply masked by the dislocation of massive deleveraging."

On the U.S. dollar:

"Despite the already enormous depreciation in the US dollar's value, the currency still has much farther to drop. Recently the U.S. dollar "enjoyed" a counter-rally of epic proportions. This is just de-leveraging, with gold going down for the same reason a lot of stocks were going down, a lot of commodities were going down. There's a lot of

leverage in this system, there's a lot of margin calls, a lot of liquidation; a lot of people are having to sell whatever they own to pay off their debts ... there was some perception of safety in the U.S. dollar, but it's the opposite of the leveraging. If you're selling your assets, you're accumulating dollars. It's like there's been this gigantic nuclear explosion in the United States, and everybody is running toward the blast. Pretty soon they're going to figure out they're going in the wrong direction. The U.S. dollar will be the next bubble to burst."

On the American Consumer:

"The American consumer is basically going to stop consuming and start rebuilding his savings, especially as his home equity, the American consumer's largest source of "equity", evaporates. When you have the economy 70 percent consumption, you can't address those imbalances without a severe recession, and so here we are. As government and the lenders re-impose lending standards and tightening up on credit, and the sky-high real estate prices come crashing back down to earth, baby boomers are facing some severe challenges."

On U.S. Real Estate:

"Don't expect any major turnaround in prices soon. When the housing crisis began, we provided data that estimated that prices needed to come down about 40% in order to make the average house affordable by the average person. Of course that was before the average person's income came down. If the depression continues, house prices should come down a further 10% to 20%. And don't forget about the second wave of defaults ... some unlucky homeowners could see their mortgage payments as much as double ... and then there's the serious state of the commercial real estate market – only now starting to become evident."

On the Canadian Dollar:

"With the Canadian economy more stable than the American, savvy Americans a few years ago started putting their money into our resource sector. This had barely gotten going when the July 13, 2008 massacre was orchestrated by Bernanke and Paulson, killing the leveraged long commodities and short the dollar trade. Keep in mind that the Canadian dollar had gone from the low 60 cents to the Greenback to \$1.09 in relatively short order. OK, so now we've had a counter rally. We suspect the resulting deleveraging and forced liquidation certainly took even its instigators by surprise. We are one of the few countries to have not inflated our monetary base by printing more dollars. Plus we have the soundest banking system in the world now. It is ironic that Canada is more fiscally conservative yet the Canadian dollar goes down against the U.S. dollar for most of the last year. The Canadian economy and value system is like the best of America, but avoids most of its pitfalls."

On Timing:

"Our experience is that when everyone is bearish, it's invariably right to be buying. Being contrarian at the extreme works. The bottom of a stock-market cycle, by definition, has to be the point of maximum bearishness. The news doesn't have to be good for prices to rally; it just has to be less bad than what has already been factored into the market"

On the Depression Fear:

"A Depression in the old sense of the word is impossible. The world is a different place, and far wealthier than it was 80 years ago. If one describes a depression as the loss of purchasing power of the wage earner (a correct definition), then we have been in one for the past 50 years since wages have not kept up with the cost of living."

"'We are heading into the Greatest Depression in history'. As long as this image gets into the press and the media and politicians buy into it, the government has a green light to create as much money as is needed, and they will do whatever it takes. Bernanke has been telling us that for years. Throwing money out of helicopters - believe him."

Our April 2009 Conclusions:

"We believe that the stock market is giving the correct signals, that commodities and tech will lead the next recovery. Yes, China is coming back – they have high savings rates, no debt and are long term players, but the industrial world is still looking bleak... We continue to believe that small-caps are the place to be for 2009-10, as readers of my "Back up the Truck" commentary last year know all too well ... history has shown that if you can weather the volatility (meaning stay out of margin, stay disciplined with mental stop-losses in place, and use money earmarked for aggressive growth, not retirement cash flow) you will out-perform the market. With some good timing thrown in, performance can be wildly profitable. Jumping into the deep-end and buying well considered, traditionally riskier small cap stocks continues to be the smartest bet right now ... Gold stocks may well be superstars again once the dollar finally falls, and people begin to get genuinely worried about inflation's return, and they should outperform bullion to the upside."

Review of last year's Portfolio Changes (Emailed Trade Alert History)

May 1, 2009 – April 30, 2010

Company Name	Comments	Date
Orsu Metals (OSU-TSX)	Bot 100,000 shares at \$0.25	20-Apr-10
Gulfport Energy (GPOR-NASDAQ)	Sold 10,000 shares at US\$14.50 (C\$14.56)	16-Apr-10
Orsu Metals (OSU-TSX)	Bot 250,000 units at \$0.25 incl 1/2 w warrant ex @ \$0.50 2 yrs	16-Apr-10
Corridor Resources (CDH-TSX)	Sold 25,000 shares at \$5.89, our technical target	16-Apr-10
Opti Canada (OPC-TSX)	Sold 25,000 shares @ 2.45	5-Apr-10
Gulfport Energy (GPOR-NASDAQ)	Bot 10,000 shares at US\$10.50 (C\$10.72)	30-Mar-10
Corridor Resources (CDH-TSX)	Bot 10,000 shares at \$3.91, on technical support	26-Mar-10
PanWestern Energy (PW-TSXv)	Bot 100,000 shares @ \$0.47 via bought deal placement	25-Mar-10
Bankers Petroleum (BNK-TSX)	Sold 25,000 shares @ \$9.30	23-Mar-10
Corridor Resources (CDH-TSX)	Bot 15,000 shares at \$4.01, upper technical buying band	19-Mar-10
Gulfport Energy (GPOR-NASDAQ)	Bot 10,000 shares at US\$11 (C\$11.19)	11-Mar-10
Bell Copper (BCU-TSXv)	Bot 875,000 units @ \$0.20 w with a full 1 yr w warrant ex @ \$0.35	6-Mar-10
Bankers Petroleum (BNK-TSX)	Sold 25,000 shares @ \$7.61	4-Mar-10
PanWestern Energy (PW-TSXv)	Bot 250,000 shares @ \$0.37 average	25-Feb-1-Mar-10
Orsu Metals (OSU-TSX)	Bot 150,000 shares at \$0.396 average	04-Jan-24-Feb-10
Petroamerica Oil 5yr \$0.75 wts (PTA.WT-TSXv)	Bot 250,000 shares @ \$0.18	16-Feb-10
Duncastle Gold (DUN-TSXv)	Bot 350,000 shares @ \$0.06	08-Feb-22-Apr-10
Petroamerica Oil Corp (PTA-TSXv)	Bot 150,000 shares @ \$0.467	4-12-Feb-10
Endeavour Financial (EDV-TSX)	Bot 50,000 shares @ \$1.812 per share average	1-Feb-10
Encanto Potash (EPO-TSXv)	Bot 250,000 shares at \$0.205 per share	25-29-Jan-10
Catalyst Copper (CCY-TSXv)	Bot 250,000 shares @ \$0.105 in private placement	4-Jan-10
Orsu Metals (OSU-TSX)	Bot 61,000 shares at \$0.592 average	10-Dec-09
Corridor Resources (CDH-TSX)	Sold 25,000 shares at \$5.342, our set technical target	7-Dec-09
Petromanas Energy (PMI-TSXv)	Bot 250,000 units at \$0.25 w with a full w warrant ex @ \$0.45 5 yrs	4-Dec-09
Orsu Metals (OSU-TSX)	Bot 99,000 shares at \$0.63 average	02-05-Dec-09
Geovic Mining (GMC-TSXv)	Bot 250,000 shares at \$0.5925 average	01-10-Dec-09
Donner Metals (DON-TSXv)	Bot 250,000 shares @ \$0.175	23-Nov-3-Dec-09
Petroamerica Oil Corp (PTA-TSXv)	Bot 100,000 shares @ \$0.58	23-25-Nov-09
WesternZagros Resources (WZR-TSXv)	Bot 250,000 shares @ \$0.632 average	23-25-Nov-09
New Gold (NDG-TSX)	Sold 22,500 shares @ \$4.02	23-Nov-09
NYCE Technology (pre-IPO)	Bot 250,000 shares @ \$0.50	21-Nov-09
New Gold (NDG-TSX)	Sold 22,500 shares @ \$3.80	20-Nov-09
New Gold (NDG-TSX)	Bot 20,000 shares @ \$3.68	20-Nov-09
New Gold (NDG-TSX)	Bot 25,000 shares @ \$3.70	19-Nov-09
Orsu Metals (OSU-TSX)	Sold 500,000 shares @ \$0.085	19-20-Nov-09
Bankers Pete \$0.95 Wts exp 10Nov09	Sold 50,000 w ts at \$2.60	10-Nov-09
Opti Canada (OPC-TSX)	Bot 100,000 shares @ \$1.80 average	3-Nov-09
Orsu Metals (OSU-TSX)	Bot 500,000 shares @ \$0.055 average	3-5-Nov-09
AKA Ventures (AKA-TSXv)	Bot 1,200,000 units @ \$0.05 w with a full w warrant ex @ \$0.10 1 yr	27-Oct-09
Opti Canada (OPC-TSX)	Sold 50,000 shares @ \$2.54 average	26-Oct-09
Petroamerica Oil Corp (PTA-TSXv)	Bot 150,000 shares @ \$0.71	23-Oct-09
Opti Canada (OPC-TSX)	Sold 50,000 shares @ \$2.48 average	19-Oct-09
Altair Ventures (AVX-TSXv)	Bot 250,000 shares @ \$0.146 average	15-Aug-8-Oct-09
WesternZagros Resources (WZR-TSXv)	Stop-loss sale 175,000 shares @ \$1.59 average	5-Oct-09
Wavefront Technology Solutions (WEE-TSXv)	Sold 40,000 shares @ \$2.25	5-7-Oct-09
Endeavour Financial (EDV-TSX)	Bot 15,000 shares @ \$1.64	2-Oct-09
AKA Ventures (AKA-TSXv)	Bot 500,000 shares @ \$0.06	1-Oct-09
Wavefront Technology Solutions (WEE-TSXv)	Sold 20,000 shares @ \$2.35 average	28-Sep-09
Opti Canada (OPC-TSX)	Bot 100,000 shares @ \$1.905 average	17-28-Sep-09
Wavefront Technology Solutions (WEE-TSXv)	Sold 30,000 shares @ \$1.99 average	28-Sep-09
Anvil Mining (AVM-TSX)	Sold 75,000 shares @ \$2.65	25-Sep-09
Wavefront Technology Solutions (WEE-TSXv)	Sold 60,000 shares @ \$1.725 average	25-Sep-09
New Gold (NDG-TSX)	Sold 50,000 shares @ \$4.385	17-Sep-09
Opti Canada (OPC-TSX)	Sold 100,000 shares @ \$2.455 average	17-Sep-09
Corridor Resources (CDH-TSX)	Sold 25,000 shares @ \$3.29	11-Sep-09
Novus Gold (NOV-TSXv)	Bot 175,000 shares @ \$0.155 average	15-Aug-16-Sept-09
Bankers Petroleum (BNK-TSX)	Sold 65,000 shares @ \$3.52	14-Aug-09
Duncastle Gold (DUN-TSXv)	Bot 150,000 shares @ \$0.115 average	13-18-Aug-09
WesternZagros Resources (WZR-TSXv)	Sold 75,000 shares @ \$1.75	7-Aug-09
Bell Copper (BCU-TSXv)	Bot 150,000 units @ \$0.10 w with a full 1 yr w warrant ex @ \$0.25	28-Jul-09
Alange Energy (ALE-TSXv)	Bot 250,000 shares @ \$0.445	20-23-July-09
Kobex Resources (KBX-TSXv)	Bot 200,000 shares @ \$0.385 average	17-July-7-Aug-09
Opti Canada (OPC-TSX)	Bot 100,000 shares @ \$1.90	30-Jun-09
Bankers Petroleum (BNK-TSX)	Bot 15,000 shares @ \$1.97	18-Jun-09
Wavefront Technology Solutions (WEE-TSXv)	Bot 150,000 shares @ \$0.686	14-23-June-09
Corridor Resources (CDH-TSX)	Bot 50,000 shares @ \$2.20	12-Jun-09
Uranium One (UUU-TSX)	Sold 50,000 shares @ \$2.93	10-Jun-09
Uranium One (UUU-TSX)	Bot 25,000 shares @ \$1.66	3-Jun-09
New Gold (NGD-TSX)	Sold 25,000 shares @ \$3.50	29-May-09
Uranium One (UUU-TSX)	Bot 25,000 shares @ \$2.16	28-May-09
Mega Silver (MSR-TSXv)	Bot 40,000 shares @ \$0.72	25-May-09
Orsu Metals (OSU-TSX)	Sold 400,000 shares @ \$0.1038 average	15-May-09
Opti Canada (OPC-TSX)	Bot 25,000 shares @ \$2.75, sold 25,000 shares @ \$3.24	14-May-09
Opti Canada (OPC-TSX)	Trailing stop-loss sale of 50,000 shares @ \$3.30	13-May-09
New Gold (NGD-TSX)	Bot 50,000 shares @ \$2.31	12-May-09
Endeavour Financial (EDV-TSX)	Bot 25,000 shares @ \$1.60	12-May-09
Opti Canada (OPC-TSX)	Sold 50,000 shares @ \$3.59	8-May-09
Evolving Gold (EVG-TSXv)	Bot 250,000 shares @ \$0.388	7-15-May-09
WesternZagros Resources (WZR-TSXv)	Bot 150,000 shares @ \$0.395 average (missed recording in YE)	12-17-Mar-09

“State of the Union” ... Where are we headed?

One of our themes this year is the now-apparent worldwide industrial recovery, which has sparked resurgence in prices of industrial raw materials. Across most of the world, factories and portfolios are experiencing a rebirth, and while many were so traumatized by the news of a collapse of the world's economies in 2008 that they literally closed up the shop, those that stepped into the breach have enjoyed what history will record as an amazingly swift and rewarding recovery.

Fear gives intelligence to fools, says an old proverb. Turning it around a bit, we might say that lack of fear makes fools of wise men. In the market, fear - or lack of same - finds expression in many forms.

Lehman's collapse was the final shock to an over-levered financial system, crashing the prices of equities, corporate bonds and commodities. However, while OECD economies survived on life support via massive stimulation from their panic-stricken politicians and stunned central bankers, China and India were never really in danger. Quick stimuli in both those economies kept banks and factories functioning, and GDP growth remained strongly positive.

It seems the Old World came to the rescue of the New during the worst economic collapse since the Depression, with the New virtually drowning in the real estate and financial engineering debts accumulated to finance the excesses and miscalculations of the previous cycle.

Managers of sovereign funds don't know where safety is. They know it's not in Euros, and they suspect it's not in US dollars. What's left? Could it be gold? China and Russia think it is. Since March 2009, the stock market has staged a dramatic recovery. Thinking that a new bull market has started, many Americans have leveraged up again, while others have loaded up with stocks for the first time. A major stock market decline now would play havoc with the still shaky US economy.

We can't shake our suspicion that the US market may be tracing out a major top, in the face of rosy news in many areas (except employment). The US stock market is loaded with amateurs who hope to recoup their losses. If the stock market is actually topping out here, the public is eventually going to turn severely bearish. In the past few months, many Americans have returned to the stock market, and others are buying foreclosed property under the belief that real estate has hit bottom and finally turned up. Again, leverage is being used by those able to tap existing equity. If the stock market is topping here, it is likely that the real estate market will sink to new lows (and this time we'd see the commercial real estate market collapse along with housing).

The US and European equity and junk bond markets are heavily dependent on astounding ingestions of what is being termed “financial heroin.” In the words of Don Coxe, Coxe Advisors LLP, “if there were a Financial World Olympics, the organizing committee would have long ago disqualified them from further competition, and awarded the gold medal to China, the silver to India, and the bronze to either Indonesia or Brazil—with a special award of merit to Canada and Australia—whose economies and stock markets had been growing—to great extent—based on the commodity price increases spawned in Asia.”

The recent industrial recovery does seem to have legs. There is a global swing taking place in inventory cycles from panic liquidation to modest accumulation. Yes, house prices remain weak and unemployment remains strong across most of the US and Europe, but the rising level of confidence and attendant recovery seems real.

Those over-extended and over-leveraged “players” who got wiped out in the real estate and financial markets are at least starting to find work – albeit part-time. The major central banks are beginning to slow the rate of their stimuli, and will be watching anxiously to see whether the US and European economies are able to stand on their own legs, once the crutches are removed.

However, China's global impact is slowly changing, at least at the margin. It has notably switched from exports to imports. The weak OECD economies can no longer absorb sustained increases in purchases of Chinese products. But China's imports of mostly the raw materials needed for their infrastructure build out and to meet the growing levels of urbanization continues to grow, driven largely by the migration of millions of rural farming folk to the cities seeking work.

The symbol of this second decade of the commodity boom is a ship going to, not from, China - the bulk dry cargo ship carrying raw commodities. This is going a long way towards supporting those resource-rich exporters,

Canada and Australia in particular, and investors need to maintain the orientation of their equity exposure towards Oriental demand through these markets.

Worth repeating though, and of significant concern, is the stellar recovery in US stocks, pointing to a strong level of hope, and hype, that investors must get back in and participate – that maybe it is business as usual. We believe this time the circumstances are indeed different. There are many signs pointing to the collective view that there is a robust recovery on the way in the US, but this will likely prove to be premature. Still, we might qualify this with the opinion that while the starry-eyed optimists could be wrong, so may be the strident pessimists.

The 2008 crash was bigger than any we've had since WWII, and the bailouts and financial stimuli that saved the banking system from complete implosion means we have no precedent to use in evaluating risk within the banks, relative to the rest of the markets. The fact that a financial company the size of Citicorp can melt down from \$55 to \$1, receive a \$50 billion bailout, and then enjoy a 400% recovery from its low is not strong evidence that all is right in America.

And consider this: the U.S. Government Accounting Office states that using reasonable assumptions, “roughly 93 cents of every dollar of federal revenue will be spent on the major entitlement programs and net interest costs by 2020.” Yikes! That is an example of the economic truism that if something can't happen, it won't. Long before we get to 2020, massive change will be forced upon the U.S. The question is, do they do it willingly or do they become Greece?

Economists point out that there has never been a recovery from recession that succumbed quickly into a new recession that was marked by low overall CPI and modest top-line GDP growth with high unemployment, when no major shooting war was raging, yet base metal prices were rising sharply, driven by non-OECD demand. Obviously it *is* different this time, because this time the pulling power for global recovery comes from Emerging and Emerged Economies—not the established Industrial Economies.

This economic recovery has been accompanied for more than a year by near-zero *nominal* interest rates. You would normally expect the Crude Goods component of PPI to give the first signal of higher prices in the economy. But, the overall rising economic cost (PPI), and economic drag from somewhat higher base metal prices, is trivial for the U.S. compared with what's been happening to crude oil, and that *is* a realistic concern.

So what about crude oil, the lifeblood of America and the developed world? When recovery from the tech-crash-induced recession began in 2002, crude oil prices were finally back to where they were in 1986, the result of a combination of factors: slowly-collapsing oil capex during the 1990s, a slow recovery in Russian production after the defeat of Bolshevism, the collapse in Iraqi production, a global economic recovery and, most importantly, surging demand from China.

Control by the Saudis and their OPEC colleagues had been lost to the spot market. By 2007, even as Russian and Saudi output climbed back toward record levels, and Iraq returned to production, oil shock returned with a vengeance. Crude oil prices soared to \$145 a barrel, which was quickly followed by sudden financial and economic collapse across most of the OECD, which sent crude to a low of \$35.

As is the self-correcting nature of a free-market economy, if it were left to its own devices, that oil price collapse on its own was arguably the biggest economic stimulus package ever applied to the U.S. marketplace, with significant built-in relief repercussions for all the developed nations. All of a sudden the airline and transportation sectors received a huge break from their costs, as did the driving public, but it was mostly to be short-lived. Possibly helped by the U.S. Fed's injection of massive amounts of stimulus, Oil has now moved back up to the low-\$80's per barrel, and is now more likely to maintain a fairly narrow range – Saudi Arabia believes “the perfect price” to be the \$70-\$80 range.

Interestingly, natural gas is still on its heels, trading at a far lower price today than at year-end 2008. Since oil companies generally produce both oil and gas, and most oilfields contain both fuels, it is more than of passing interest that the industry reports in *barrels of oil equivalent*, which includes natural gas reserves on the basis of 6 mcf to produce energy equivalent to one average barrel of crude oil. And so the huge finds of shale and tight natgas in recent months have served to mask the reporting of the dwindling supplies of in ground crude oil.

Retail investors in oil and gas companies are largely unaware of the huge gas component, and coupled with the fact that average decline rates of shale gas production are far above oil – roughly 70% in the first year, face this rapidly eroding underlying asset value as a headwind. There are significant efforts underway by the market to

“capture” this natgas discount through substitution, especially in plastics and chemicals, and as a heating fuel. For Europeans, this offers an excellent opportunity to get out from under Putin’s power, as cheap and plentiful natgas with invade oil’s dominance in the heating, cooling, manufacturing and transportation sectors.

Sustained cheap gas and restrained oil prices are also good reason to feel more confident about the industrial metals and future profitability of some of the major gold mining companies, farmers’ net incomes, farm equipment manufacturers and fertilizer and seed producers – all with large energy components.

Our look ahead cannot be complete without a return to the demise of the U.S. “greenback”. For years now we have considered the weakening dollar as one of our major “big picture” themes, around which much of our strategy revolves. Buy Canadian resource sector juniors to take advantage of a deteriorating U.S. dollar, and therefore appreciating gold and metals prices (priced in US dollars, the world’s reserve currency), with the wind at your back courtesy of the mostly Chinese miracle – their equivalent of the American post-WWII go-go years of expansion and infrastructure build out – only much, much bigger – and the attendant demand for the raw materials and a way to protect their wealth. That theme has served us well, and is still very much intact.

The fact that we have seen periodic flights of capital back into the world’s most liquid and deep markets of the U.S. are simply rallies within an ongoing bear market in our opinion. For most of the intervening period, the dollar has been weak against major tradable currencies. The exception came during the financial crisis, when overleveraged players were forced to unwind exposure to American debt instruments. That process, plus a general tendency in panics to rush to the biggest of the alternatives, produced a powerful dollar rally.

The dollar has seen these rallies despite continuing negative reports about the Fed’s balance sheet, Washington’s deficits, Washington’s spending, the likely cost of major new programs (such as health care and cap and trade), and that the Social Security Trust Fund cash flow has gone negative six years ahead of schedule. As soon as some stability returned however, the dollar bear resumed its downward path.

The dollar is currently being rescued by global investors’ reappraisals of the so-called PIIGS. That term covers members of the Eurozone whose finances are as bad - or worse than - the US, which includes Portugal, Italy, Ireland, Greece and Spain. Greece is just the first to hit the wall, but the others are in queue and watching intently, weighing their options. The Greek problem is a Euro problem. And the Euro problem is a paper money backed by nothing problem coupled with high levels of debt.

Greece’s fiscal deficit is listed at 12.5% of GDP and its national debt is said to be near 130% of GDP. Eurozone members’ deficit is supposedly capped at 3% of GDP. Those numbers would not constitute disaster if there were any evidence that Greece could, with short-term aid, become credit-worthy, without reliance on the productive Eurozone members and the IMF. Unfortunately nobody believes that Greece can rein in its massive public sector with its juicy benefits - including early retirement.

It is unrealistic to believe that Greece can kick start its economy by suddenly becoming strongly competitive. Greeks are well-known for their casual approach to paying taxes and working efficiently. However, they share space in the world’s largest free trade zone with industrious and thrifty people (notably the Germans, Dutch, and Austrians), who are quick to wag their fingers disapprovingly at any talk of a bailout using their money.

The fact that Greek trouble has now spread to Portugal and many of the other fiscally-challenged European states shows what really needs restructuring - expectations on the level of social welfare the nation state can be expected to deliver without bankrupting an economy. But this is a larger issue than politicians have the stomach (and the apparent intellect) to deal with. So a great whirlpool of uncertainty now begins to swirl over who is going to pay for what, or whether it can be paid for at all. That is not good for investors in the short-term.

The only real resolution to a sovereign debt crisis is default by inflation. Because it does not control its own interest rates or money printing (monetary policy) the Greek government is at the mercy of the European Central Bank. And being genetically descended from Germany’s Bundesbank, the ECB is reluctant to print Euros in order to save Greece.

Much “political capital” is being expended by those who wish to see the monetary and political experiment that is Europe ended sooner rather than later, and the German people are in the forefront of that effort. With 8 of 10 Germans now openly opposed to any manner of bailing out their Greek compatriots, German Chancellor Merkel finds herself in an uncomfortable position as she and her party head toward elections. She is facing a political Hobson’s choice: Be a good European and push for German aid to Greece or be a good German and stand aside

and let Greece fail.

The U.S. Federal Reserve, controlling the world's de facto reserve currency, of course CAN print as many dollars as it would like – at a long term cost of course. And this is why we firmly believe the resolution of America's own sovereign debt problem will be inflation. That's the investment scenario we're preparing for ... a world awash in increasingly worthless paper claims on the full faith and credit of the United States government. But in the interim the dollar is again getting the 2008-like "flight to safety and liquidity" bid.

It used to be that the only other real alternative currency to the U.S. dollar was the Japanese yen, which continues to be a zero-yielding currency of a country that will see its population fall by 50% by 2050 – the worst demography in human history. Maybe Eurobonds are still a better bet, but relative to our mighty Canuck buck the Euro has also seen a steady erosion from \$1.60 to the \$1.33 area just this last year. The U.S. dollar's reality is that it is now the worst big alternative to gold, which we have long considered to be the "anchor" of true value, the safe haven for the maintenance of one's buying power. Why would anyone buy gold when there is seemingly no inflation? The famous Jim Rogers, an unabashed commodity bull, simply cites the current account and Treasury deficits and said, "Just do the math." There's just no easy way out for the Americans or the Europeans.

We have long observed in our day to day market experiences that the days the dollar is strong are days commodities and commodity stocks are weak, and vice versa. History shows that the greatest commodity bull market of our time - the 1970s - was a time of severe dollar weakness, and the subsequent crash of commodities came during a long, strong dollar bull market. Can a commodity bull market coexist with a dollar bull market? Yes when investors conclude that bonds are no safe haven, and that economic growth remains much stronger in the key Asian economies than in the U.S. or Europe.

The commodity bull market in this decade will be driven by (1) industrial demand for raw materials; (2) sustained demand for petroleum; (3) continued protein upgrades in diets in emerging economies, and (4) greater reliance on precious metals as stores of value, not necessarily as hedges against actual inflation.

Inflation could in fact come back quickly if the global economy turns strong, government deficits stay high, and real yields on government bonds turn sharply negative. At the moment, measured inflation remains subdued because of heavy unemployment and large percentages of unused capacity across the OECD. Either way, after a once-in-a-generation "outlier" event (and therefore something unlikely to be repeated anytime soon - there are still just too many waiting for the other shoe to drop), we are well-positioned to build on our record one-year 162.3% performance, albeit at a potentially more modest pace.

The really easy money has been made over the last year, from massively depressed, end-of-the-world valuations. Now more than ever we need to be very careful stock pickers – of deep-discounted value, where the downside is well-protected, and the upside is quantifiably very large indeed. We need focused, individual success stories, unique stories of exploration and discovery, not just positioned for a tide that lifts all ships.

One final observation, given the huge oil well disaster in the Gulf, is the tremendous downward revaluation currently taking place on offshore drilling. The bad luck for BP and the other participants in that well, and the insurers involved, is rapidly being priced into their stocks. Only the class action lawsuits will outlive the cleanup period that looms far into the future. The implication for investors is that the level of risk for offshore activity goes way up. Let's keep in mind that there are 3,500 offshore platforms in the gulf, and there have been no previous disasters. Still, can we afford even one reoccurrence of such an event? Is it just a one-off failure of technology that will be quickly fixed? Obama's efforts towards more offshore drilling will likely become muted, at least for immediate drilling plans within US jurisdictions (but not likely elsewhere in the world). This is an emotional reaction, to be sure, but public perception is sharply focused and sympathetic with oily birds, washed up fish, and ruined wetlands and beaches.

As a close to these comments, here's a controversial idea to consider. In the news we have Greece's ridiculously generous benefits for their retirees being under siege, especially through German public opinion – and rightfully so in our humble opinion. There is clearly a stark difference between the northern "core" states of the Eurozone and the southern states, and their respective attitudes and, dare we put it too gently, their work ethic. Spain just reported its unemployment rate for Q1 this year at a staggering 20.05%, up from 18.8% last quarter. One in five Spanish workers are unemployed – depressionary levels!

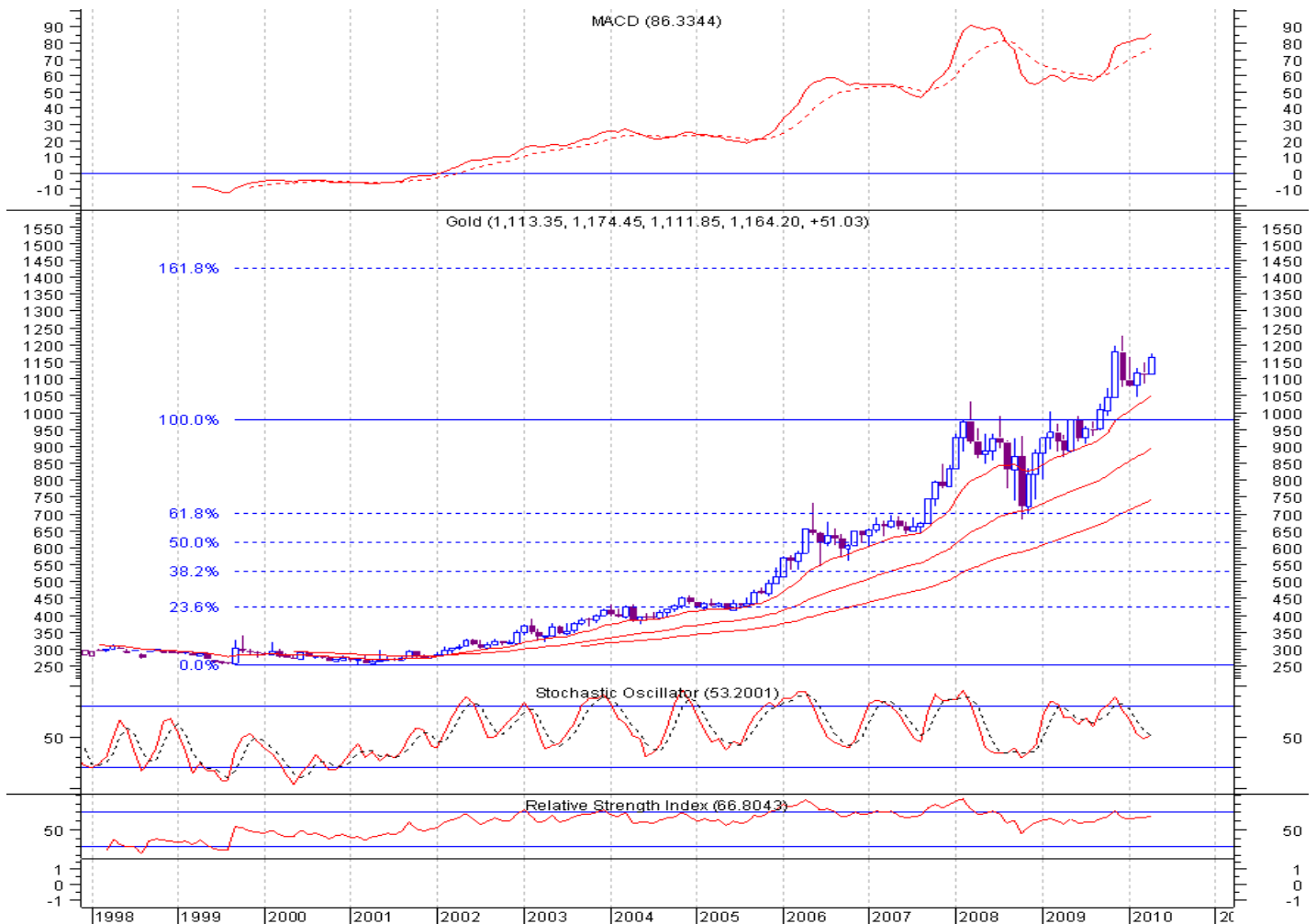
Why has capitalism and the work ethic flourished in what are Protestant states, and not so much in Catholic or Muslim states? Max Weber's book "*The Protestant Work Ethic and the Spirit of Capitalism*" (1905) and R.H.

Tawney's book *"Religion and the Rise of Capitalism"* (1926) point out the profound effects of the idea of usury - a principal viewed as a deadly sin in the latter cultures, and viewed as ethical in the former. It's a good Christian thing to become rich, and a good way to get to heaven. This sounds suspiciously similar to the more recent Chinese leader, Deng Xiaoping's "to get rich is glorious" – seems to be working! This idea was rejected by the Catholic Church for centuries.

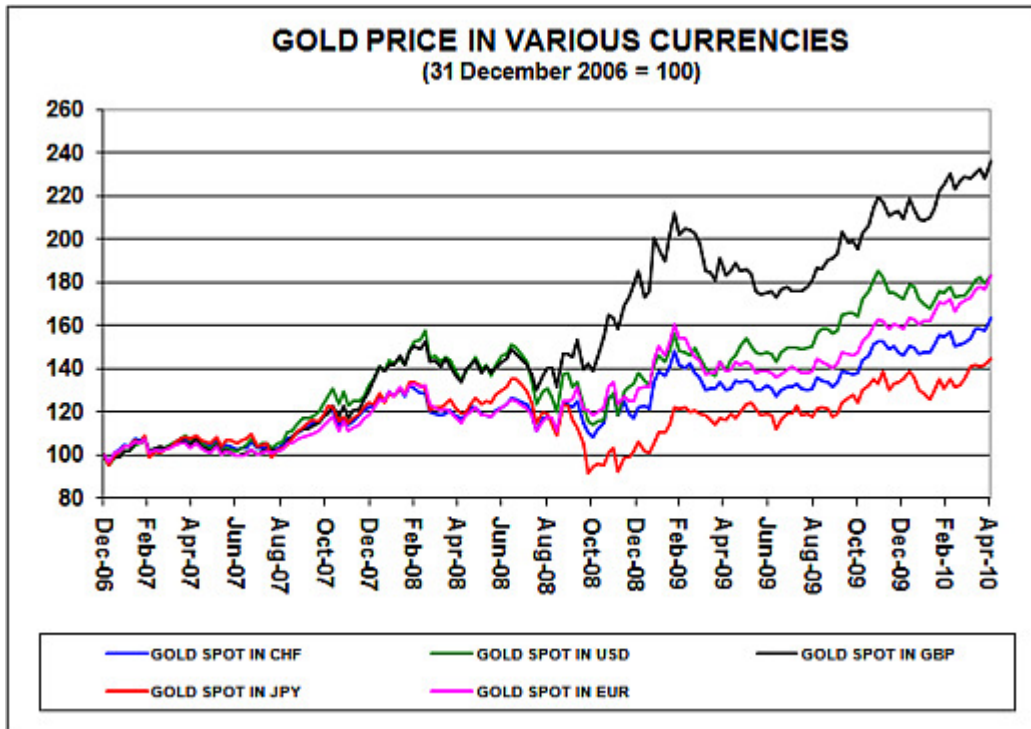
The so-called PIIGS have a history of deeply Catholic persuasion –something deeply cultural. Given the miserable economic growth forecast for these countries, we may yet see a system develop in Euroland that differentiates between the various regions' issued Euros. The imbedded deficits and public sector largess needs to be unwound. And Greece is just the canary in the coal mine – the 34% gap between a public and private sector worker in Greece is unsustainable.

The bad news for Canada and the U.S. is that a weaker Euro will cause greater relative strength for our currencies, which then affects our export sectors. The current move in gold, or should we say relative decline in ALL currencies in relation to gold, we believe, is a telling sign that gold is indeed the ultimate store of value, as much as it is an inflation hedge.

Gold ... a strong anchor in stormy seas



Last year at this time gold was \$885/oz and mainstream commentators feared a drop to \$600 per ounce or worse. Today the price is roughly \$265 higher, a stellar 30% "return", yet the same pundits are still trying to talk down the prospects for the price of gold. The sad truth is that the vast majority of investors in the U.S., the world's largest consumer market, haven't a clue about gold, take what is told to them by the talking heads as gospel, and certainly aren't aware that gold is experiencing an historic bull market in terms of their U.S. dollars. The same can be said for the British and most Europeans.



The gold price is not only making headway in U.S. dollar terms, but also in most major (and minor) currencies as illustrated by the table and graph above. Bullion veterans will recognize this phenomenon as a manifestation of solid investment demand (and a vote of no confidence in fiat paper per se). The picture and the numbers tell the full story.

GOLD PRICE MOVEMENTS IN VARIOUS CURRENCIES			
Gold price in various currencies	2008	2009	2010 (YTD: Apr 28, 2010)
Gold in US dollar	1.0%	24.7%	6.4%
Gold in euro	5.7%	21.8%	15.3%
Gold in British pound	37.8%	11.9%	13.2%
Gold in Swiss franc	-4.0%	20.7%	11.6%
Gold in yen	-18.5%	27.9%	7.5%
Gold in Aus Dollar	29.2%	-3.9%	3.3%
Gold in Can Dollar	25.7%	7.3%	2.1%
Gold in rand	42.9%	-1.6%	8.0%
Gold in renminbi	-5.4%	24.6%	6.3%
Gold in rupee	24.2%	19.1%	2.0%
Gold in dinar	2.0%	29.5%	7.0%

What we have seen to date is merely a prelude to the appreciation we will see in the years ahead. This opinion is based on a number of factors, but the predominant theme is that gold is re-establishing itself as money, maybe the only money that people can trust.

Back in 1912 J.P. Morgan said, "Gold is money and nothing else." And it was so for thousands of years, but there have been periods when that reality was obscured. The decades of the 80s and 90s saw gold retreat to

commodity status, when disinflation was in vogue, interest rates saw a 20-year long decline, and the real returns on financial assets were truly remarkable in historic terms.

Gold fell from a peak of \$850 per ounce on January 21, 1980 to a low of \$252 in July 1999. Central banks were busy dumping enormous quantities of gold by leasing it out, which means it was dumped into the market and the proceeds were reinvested elsewhere. Of course the "lease" had to be paid back eventually, but that's a problem for the future, and gold would probably be down – adding to the tidy returns.

I remember well the day half the British gold reserves were sold, within 10 percent of the bottom. This event is referred to as "the Brown bottom" in recognition of the idiocy of the current British prime minister, who was then finance minister ... a sure clue as to how unaware the voting public is of gold and their government's stupidity.

For the past 15+ years Western central banks supplied massive quantities of gold to the market. Initially this facilitated excessive producer hedging. Then it helped to fund a huge carry trade that greatly enriched the bullion banks. Now it occurs in large part to protect existing huge short positions held by those same banks.

Central banks figured why hold gold when you can own an interest-bearing piece of paper in its stead? They were likely lulled into believing gold was a relic, and a barbarous one at that. GATA figures that the whole process, with the clandestine leasing and swapping of huge quantities of gold, was orchestrated by the U.S. It was designed to reduce critical scrutiny of the central banks' increasingly reckless monetary policy, to allow interest rates to remain at unrealistically low levels and to maintain the U.S. dollar's supremacy. That this undertaking would inevitably spawn serial financial bubbles, the very same bubbles that brought the world financial system to its knees, was conveniently ignored.

Ex-Fed Chair Alan Greenspan in the early 1990s referred to gold as a "thermometer" and speculated that if the Treasury Department sold a little gold in the market and the price broke as a result, not only would the thermometer no longer be a measuring tool but the lower gold price could affect underlying psychology. For quite some time he was right.

Manipulation has a price ...

Unfortunately there is always a price to pay when misallocations and manipulations are allowed to continue. In this case, the price of gold collapsed and financial assets flourished. That sowed the seeds for what has happened subsequently: a robust bull market in gold since 2001 and increasing chaos in the stock, debt, and real estate markets worldwide.

Even today central bankers continue to intervene in all markets, but it's not unrealistic to observe that their influence is waning dramatically in the gold market. History has always demonstrated that manipulation of the free-market process ultimately fails. Government interference and price manipulation can't be maintained over the longer term. Eventually things are pushed to some tipping point and then market's break.

Interestingly, we can point to an earlier generation of central bankers that unsuccessfully tried to same ploy with gold in the 1960s. Using the considerably more transparent London Gold Pool, they succeeded in holding gold at the then-official price of \$35 per ounce for a number of years before being overwhelmed by the reality of the situation. In the following decade of the 1970s, gold rose 2,300 percent! Markets that have been artificially capped tend to catapult upward when the suppression inevitably fails.

In the era of the London Gold Pool, only around 3,000 tonnes were sold to maintain the \$35 price. This time the exercise has been dramatically larger and has occurred over a much longer time frame against the backdrop of a considerably more fragile financial structure, particularly in the West. Credible estimates suggest that more than 15,000 tonnes, or roughly half of the central banks' reserves, have already hit the market and are long gone, mostly dissipated into the jewelry sector.

Gold's return as money is going to be instrumental in driving gold to prices that may seem fanciful to most readers. But it isn't gold that is changing, because it has been a constant store of value for over 6,000 years. It is the value of fiat paper money in which gold is priced that is on the slippery slope to oblivion.

The monetization of various forms of debt by unfettered printing of money by central banks is termed "quantitative easing". The inflationary impact has yet to occur because of ongoing deleveraging and the falling velocity of money. But that is the short term - it is only being delayed. When it begins to manifest itself, the velocity of money

will pick up rapidly as people around the world rush to get rid of their increasingly worthless paper currency. We will then rapidly progress from relatively benign inflation to truly frightening levels in a fairly short time.

The end game ...

Ludwig von Mises was the brilliant originator of the Austrian school of economics, the only formal view of economics that makes intuitive sense to me. He observed: "There is no means of avoiding a final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner, as the result of a voluntary abandonment of further credit expansion, or later, as a final and total catastrophe of the currency system."

Following what was arguably the most abusive credit cycle in history, Fed Chair Ben Bernanke has clearly chosen the latter option. Ironically, Bernanke claimed seven years ago that he could combat deflation by the use of a printing press or, if need be, by dropping money from helicopters to sustain demand. Yes, he may avert deflation for a considerable time but at the very probable cost of hyperinflation and the social chaos that inevitably results.

We are fated to see a continuing policy of monetary ease around the globe, despite rhetoric to the contrary, because the idea of a double-dip recession or depression, as the case may be, is anathema to the powers that be. They haven't the stomach for it. Withdrawing any significant amount of stimulus, be it monetary or fiscal, would virtually guarantee another deflationary event, and this time it may be impossible to stop. And it's not just the U.S.; most other countries are up their necks in the mess as well.

The U.S. deficit is currently running above 10 percent of gross domestic product and represents roughly 40 percent of government expenditures. A recent study looked at the 28 examples of hyperinflation in various countries since 1980 and included Argentina, Zimbabwe, and many other banana republics. It noted that one common trait was that when the national government deficit exceeded 40 percent of expenditures, the point of no return had been reached. And the Obama administration recently admitted that its budget deficits would total \$9 trillion (probably wildly optimistic) over the next 10 years. These numbers are horrific for a country providing the world's reserve currency.

The deficits will have to be monetized, the dollar will continue to decline (relatively, in purchasing power terms), and the question of confidence will become an issue. If confidence in the dollar is lost, chaos will ensue and those trapped in dollar-based fixed-income assets will see their wealth destroyed, the same fate that befell those who believed in the system in the Weimar inflation in Germany after World War I.

The United States is in serious difficulty, but Great Britain is a basket case (recall Gordon Brown's bottom-of-the-market gold-sale stupidity, and then they elected him to the highest office!). Britain's central bank has been forced to intensify its quantitative easing program several times to keep the economy barely afloat and its financial system semi-intact.

And then there's Japan, with its rapidly aging population. It's seen its accumulated public debt reach 200 percent of GDP with no end of that trend in sight. Europe of course has its PIIGS, and may have little choice but to keep the money flowing to save Club Med, Ireland, and Eastern Europe from oblivion.

Even China had to resort to a huge increase in bank lending in the first half of last year to keep its economy moving. The resulting massive over-capacity throughout the entire Chinese economy may yet become an issue.

That brings us to our home, and favorite country, Canada. Canada is largely attached at the hip economically to the United States and as our dollar rises, our manufacturing industries, or what's left of them, are getting squeezed. Budget deficits are exploding at all levels of government. One year ago we didn't have one, but now the deficit is annualizing somewhere north of \$60 billion. Ontario has a potential \$25 billion deficit and even oil-rich Alberta has a rising deficit forecast now around \$7 billion, as very low natural gas prices, among other things, take their toll.

Rather too early than too late ...

Those with wealth to protect are beginning to more fully understand the true extent of the monetary debasement under way, leading to rising investment demand worldwide. This will intensify as inflation begins to show up in the stats. That's when the velocity of money accelerates as people figure out what is occurring. Why would anyone

want to hold a rapidly depreciating monetary asset when it yields next to nothing? This so reminds me of the '70s when I first starting investing in silver, gold and diamonds – but being early is the key to protecting your downside.

All great bull markets in precious metals are driven by investment demand as gold reasserts itself as money, the only real alternative that isn't someone else's liability. And one of the key factors that will contribute to the ongoing bull market is mine supply, or more accurately stated, lack thereof. Mine supply has been in a steady decline since early in the new century.

The decline will continue for some time irrespective of what the gold price does, as evidenced by a dearth of quality projects ready for mining, continuing geopolitical and environmental issues, less high-grading as the gold price rises, ongoing capital constraints, and a chronic shortage of skilled miners and mine builders.

Supply in terminal decline ...

Aaron Regent, head of the world's largest gold company, Barrick Gold, was quoted at RBC's annual gold conference in London that global gold production was "in terminal decline" despite record prices and Herculean efforts by mining companies to discover new ore bodies in remote areas. He alluded to "peak gold," implying that production has reached levels that can't be exceeded, an expression that is commonplace in the oil industry, where the subject has been under discussion for some time.

In the South African Journal of Science, Chris Hartnady, the research and technical director of a Cape Town based consultancy, stated that South Africa's prolific Witwatersrand gold fields are around 95 percent exhausted. He predicted that production rates should fall permanently below 100 tonnes per year within the next 10 years. Witwatersrand, the largest gold field ever discovered, peaked at around 1,000 tonnes per annum in 1970 and, though falling steadily since, still contributes around 230 tonnes per year or roughly 10 percent of world production.

There's an additional, and possibly critical, factor to consider when trying to understand why gold will come under increasing price pressure. Central banks have been permitted to use a one-line entry on their balance sheets, which does not differentiate between gold in the vault and gold receivables. Evidence supports the contention that gold receivables have grown dramatically as central banks surreptitiously mobilized their gold through leasing and swaps. This activity served two purposes – it produced fee revenue that offset costs of storage, and it depressed the price of gold as 1,000 tonnes hit the market every year. This supply essentially filled in the natural demand-supply gap since the mid- to late 90s, as gold mine production is in the neighborhood of only about 2,350 tonnes per year, masking the huge and growing gap between true demand and mine and scrap supply.

Western central banks are getting dangerously short of reserves to continue this activity, and a number of central banks -- including China and Russia, to name but two -- have acknowledged their intentions and are accumulating diversify their reserves away from the U.S. dollar. India may have trumped them all by recently purchasing 200 tonnes of the well-advertised IMF sale, kicking off the latest leg in the gold bull market and drawing widespread attention toward gold. That coincided with a complete cessation of selling by the European central banks, which under the terms of the recently renewed European Central Bank Gold Agreement could sell up to 400 tonnes per year.



Illustrating the overall message even more vividly is the chart above. This is gold expressed in a basket of emerging-market currencies by dividing the dollar bullion price by the Wisdom Tree Dreyfus Emerging Currency ETF (CEW). Also note that the chart has just broken upwards out of a five-month consolidation pattern, and paints a very graphic technical picture of the flight out of fiat currencies, and the allure of gold as a shelter.

So, as the pundits are referring to gold as overpriced and in a bubble phase, we view gold as still in its stealth phase of a bull market, which has now seen nine consecutive higher year-end closes. It has attracted very little attention from the investing public in general. The average investor remains uninterested. We do remember that at the end of gold's last bull market in 1980 people were lined up around the block outside the Bank of Nova Scotia to purchase physical gold. In contrast, these days you are more likely to see advertisements for the unsuspecting public to unload their gold jewelry for much-needed cash, and they willingly sell off their "old gold" at a huge "recycling" discount to free up some funds to help pay their relentlessly escalating living costs.

If the peak gold price of the last great bull market (\$850 in January 1980) were to be adjusted to reflect the U.S. inflation rate in the intervening period, it would be equivalent to over \$2,300 today. That the current gold price is approximately half of that should put to rest any suggestion that this is a bubble. Of course if the world suffered a catastrophic deflationary collapse, an outcome long predicted by the noted Elliot Wave theorist Robert Prechter, gold could come under significant selling pressure, but would then re-emerge with even greater relative strength as the only true safe haven. Now that would be a buying opportunity we'd rather not see!

We remain bullish on gold in the medium to long term, especially as we watch vast money printing by central banks that could set off strong inflationary pressures down the road. We would not be surprised to see bullion remaining in a secular uptrend for some time to come. Adding bullion to new portfolios is trickier at this point, given the notorious volatility of the metal, so we would only do so during inevitable pullbacks.

China ... the biggest kid on the block

The China region is one of the world's fastest-growing, possessing characteristics similar to the United States prior to the industrial revolution: a thriving, young workforce, migration from rural to urban areas and shifting sentiment toward consumption.

But like a 10-ton elephant plodding through a village of grass huts, the big question on everyone's mind is which way is she going to turn next? With China, that fundamental question extends to guessing when Beijing will make changes to the value of the yuan. That decision may well determine the overall direction of the global economy, and will set the path that everyone must follow.

In any case, if you're a long-term investor you simply can't afford to ignore China, but it's crucial to have the facts to form a basis for what the long term has in store. What follows are 5 key factors about China today that may just run counter to several of the mainstream myths out there:

No. 1 – Consumerism is taking root: According to China's National Bureau of Statistics, the country's retail spending hit their 15% to 19% target range for 2009. This means that the aggregate increase in consumer spending in China will be larger than the retail spending growth in the United States, European Union and Japan combined. China is now the world's largest car market, having displaced the United States last year. Sales of home appliances are also up sharply, rising more than 35%. Even real estate is on the mend, particularly in China's western provinces.

At the other end of the spectrum, government spending and industrial power production are up nearly 20% in just the last quarter alone. According to Carbon Monitoring for Action, China's power consumption has nearly doubled over the last decade. Just to keep up, China builds a new power plant capable of handling Kansas City's electricity needs every nine days, and a city the size of Philadelphia every 30 days.

Given the correlation between raw power consumption and economic growth, the frenetic proliferation of power plants is clear evidence that China is growing – not slowing. Beijing wants to make sure it avoids the extended energy shortages that can only choke off economic growth.

No. 2 – China is ready to serve: China's service sector is now growing twice as fast as its construction and infrastructure segments. More than 30% of China's workers are employed in service-sector (tertiary) jobs. And that's only going to grow: Beijing has shrewdly directed huge portions of its stimulus package into the country's service sector. That's an important point. It's part of Beijing's push to stoke domestic demand, an initiative that will reduce its dependence on exports to a weakened West and transform China into a stronger, standalone economy.

The quality of the jobs employing China's workers is also on the upswing. In China's industrial (secondary) sector, for instance, non-state-owned companies employed more than 70 million people in 2008, the most recent figures available. That's equal to about 80% of the country's total industrial work force.

Then there's the fact that China has created 7.57 million new jobs in the first eight months of 2009. That's 84% of the government's national target for 2009. At current rates, China may have created as many as 9.01 million jobs in 2009. Compare that to the US economy, which is dealing with a "jobless recovery," as well as a current unemployment rate of well over 10%, that's expected to get worse before it gets better.

No. 3 – There's more to China than exports: One of the biggest myths about China is that it lives and dies by exports. In fact, PIMCO's legendary bond-king Bill Gross said his bubble fears have been fueled by a concern that China is gearing itself up for an export market in which there won't be many buyers.

Truth be told, net exports account for only about 20% of China's gross domestic product (GDP) growth. Infrastructure and capital investment account for the rest. In other words, this is hardly a nation that will wither and die on the vine if the West stops buying, despite the widespread belief to the contrary.

This economic myth doesn't withstand even minimal scrutiny. First and foremost, China's markets are basically closed. So when Western pundits try to argue that a decline in exports will sink China's economy, the numbers just don't compute.

If anything, we are dangerously close to a situation in which the West's purchases become irrelevant to China's continued growth. The United States and other Western powers may need China, but as China's consumer strength grows, it's increasingly likely that the Red Dragon and its consumers won't need us.

The issue that causes Beijing officials to lay awake at night is how much the country imports to fuel GDP growth. According to BNP Paribas SA, China imports nearly 90 cents worth of goods for every \$1 in exports. That means that – at most – there's 10 cents worth of "flux" in China's economy.

Therefore, the real question investors need to answer is how much China is bringing into the country, not what it's sending out. Exports may be almost an afterthought at this stage of the game...not the do all end all they were in the late 1980s or 1990s.

No. 4 – China has an exit strategy: Unlike its US counterpart, China included a tangible “exit strategy” with its global-financial-crisis stimulus initiatives, and is utilizing private spending to address any interim shortfalls.

On the other hand, the United States is trapped in an economic minefield of Washington’s own making. China has gotten down to brass tacks and is already exiting the stimulus programs. Beijing has already raised capital requirements for banks, raised lending standards and generally curtailed access to easy money. That’s not to say there aren’t problems, but on an overall basis China is already well ahead of the curve. Beijing is even taking steps to slow things down – tapping the economy brakes, so to speak – and can boast of GDP growth of 9% or more even after the cheap money has been gently pushed to the sidelines.

Spending patterns have undergone a needed shift, too. In the old days, public spending and that of state-owned enterprises significantly outweighed private investment. But now, the two have flipped and private investment is higher than both state and public spending.

It’s a significant shift. The strength and direction of private spending may be the best measure of an economy’s durability because it expresses investor “trust” in a country’s financial system. There’s clearly a lot of this “trust” already in China – and it’s growing.

No. 5 - China’s capital reserves give it almost unlimited flexibility: \$2.3 trillion. It almost needs no explanation. China saved \$2.3 trillion for a rainy day. Now it can spend the money as its leaders see fit. Unlike its US counterpart, which may be borrowing its way into oblivion, China’s government doesn’t need to borrow against its future just to survive the present. It can finance its plans, snap up valuable assets from sellers desperate to raise capital, and make investments that will maintain its enviable growth rate well into the future. There’s a huge difference.

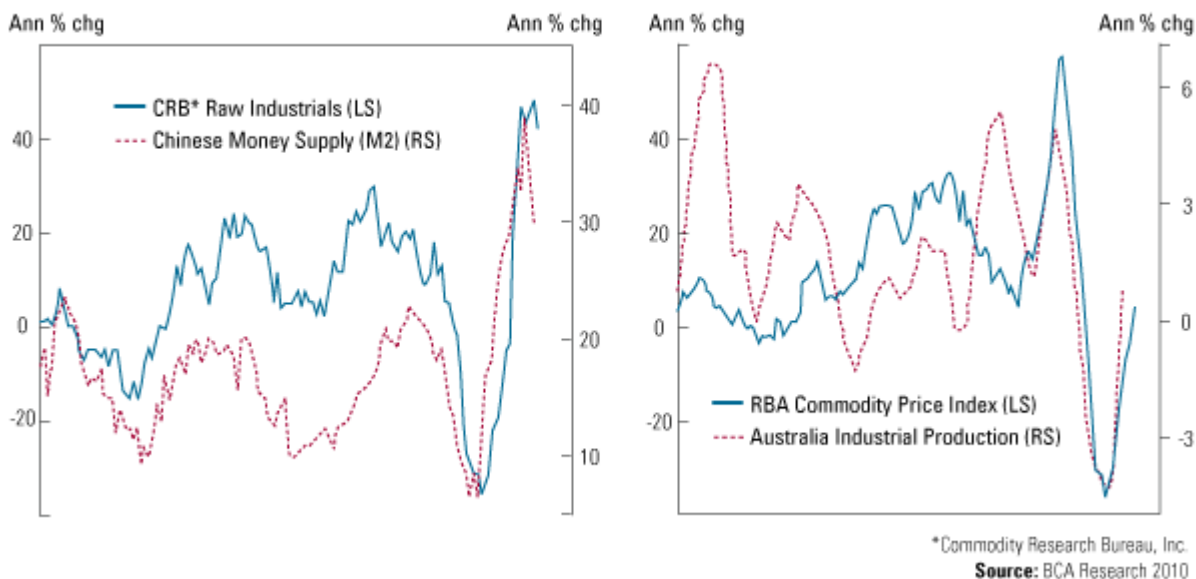
The bottom line is this: Beijing’s stimulus and massive government influence has actually refined value, accelerated private investment and sped up the flow of money. And if that constitutes a bubble as some of the pundits suggest, so be it. There’s plenty of money to be made if you know where to look.

Westerners have been predicting China’s demise for 40 years. And for 40 years, China not only refused to roll over or just go away, it has actually grown at an average annual rate of 9.28% as reflected by its GDP. With its heavy debt load and self-made problems, the United States will be fortunate to maintain a fraction of that growth rate.

To be fair, Western pundits continue to allege that China’s numbers are “cooked” – as if to insinuate that its statistics are less trustworthy than the Americans. Maybe so, but if the implication is that the US numbers are somehow perfect, that’s not only ridiculous, it’s entirely naive – as has been amply demonstrated by the likes of Enron, Worldcom and Bernie Madoff. And take a second look at some of the figures coming out of Washington these days.

Australia’s numbers may be of some use to us here. It is one country to keep an eye on as an indicator of economic activity in China and underlying demand for commodities. The country’s large reserves of coal, iron ore and other natural resources have made it a natural trading partner for booming Asia. In the last 20 years, China and India have gone from receiving 5 percent of Australia’s exports to more than 30 percent, a BCA report said last week. Australia also has been the destination for 25 of China’s cross-border corporate and resource-related transactions since 2005, totaling more than \$31 billion.

China, Commodities and Australia are Connected at the Hip



As for the contention that China's economic and stock-market growth rates are unsustainable, we can certainly envision a near-term pullback. That's normal for any financial market, including in our own back yard – where, I might add, the American markets look mighty toppy right now.

Bubble or not, in China, at least you can invest, live through a pullback, and rest easier with the knowledge that there's a \$2.3 trillion tailwind driving your money. In the US market, you can invest, live through a pullback, and lay awake at night knowing that you've got a decade's worth of headwinds, a deficit of more than \$1 trillion fighting any investment play that you make.

Of course we don't invest directly in China, or even the Western ETFs and other instruments designed to capture its direct growth. We invest in what they need, from the comfortable position of holding and placing Canadian dollars in mostly Canadian companies, whose world-class expertise is finding, extracting and supplying the world with precious and base metals, oil and gas, and other key, depleting resources necessary for civilization. And we occasionally invest in the technology required to do things more efficiently, and make the world a better place to live.

In our experience, there is no faster means of attaining true wealth than through the discovery of a massive, accessible resource in the ground – and it remains our goal to continue the chase alongside the world's best operators and technical talent.

America ... home of the brave, not so free

Not since WWII has government expenditure consumed a larger percentage of the US nation's GDP than now. Government expenditures began the 20th century at a relatively modest 7% of the nation's entire economic activity. Today they account for almost 45% of the whole. Until as recently as 1950, total government expenses - including pensions, health care, education, national defense, welfare and all other spending - were still in the vicinity of \$70 billion, or roughly 25% of the nation's GDP. Just two decades later, that number had more than tripled (in nominal terms) to \$322 billion, or around one third of the nation's GDP.

We doubt if 'trillion' had ever even been uttered in the halls of Congress at that time, but by 1990 government expenditures reached just over \$2 trillion, edging its way toward 35% of GDP. Today, it sits at over \$6.5 trillion and is projected to top \$8.6 trillion by 2015.

The real issue here is what you get for your money. Politicians don't typically spend other peoples' money as prudently as they might spend their own. State-funded activity generally leads to a mountain of waste and, eventually, an even bigger mountain of debt. According to figures compiled by the Peterson Foundation, the

government's debt was over \$180,000 per person in 2008. Since then, it has grown at more than \$4.2 billion dollars per day. This includes expenses like servicing the interest payments on the national debt, maintaining armed forces in hundreds of permanent bases around the world, funding various and multiplying welfare programs, and paying the swelling public workforce more than the private market would ever tolerate for the sub-standard services provided.

Why is this important? Because an increase in the size and cost of maintaining a welfare state is directly proportional to a decrease in economic freedoms for those who are forced (through taxation and other coercive measures) to sponsor it. Similarly, a greater state presence in an economy means more confiscation of private individuals' property and, ultimately, an unsupportable number of people living at the expense of the dwindling, productive few.

Unsurprisingly, Uncle Sam is responding with an ever-tightening noose of capital controls. Our vigilant friends over at *The 5-Minute Forecast* noticed recently a "provision slipped unceremoniously into the Hiring Incentives to Restore Employment Act, AKA 'the jobs bill,' which passed into law on March 18, 2010. "The provision outlines new rules on 'Foreign Account Tax Compliance.' The gist is this: Send more than over \$50,000 to a foreign bank not on good terms with the US and the IRS will withhold 30% of it for possible tax claw back - and a boatload of your private account information."

What's more, with trillion dollar annual deficits as far as the eye can see, there is little chance that the political pressure to "eat the rich" will ease up anytime soon.

Small wonder then that a fast-growing number of people are already trying to get out before the hammer really slams down? And, more germane to this discussion, are these people to be considered "unpatriotic" for surrendering a passport - of any color and origin - in favor of liberty?

One cannot point to freedom on a map, nor is it defined - regardless of laws attempting to render it otherwise - by the color of one's passport or skin. It resides neither in the wooden speeches of politicians nor in the empty election promises. Instead, it lives and thrives in the impenetrable safekeeping of those who seek to achieve it. As such, it is only natural that the torchbearers of mankind's greatest attribute, like those very people who sought it out in the frontiers of America, Canada, Australia, and many countries before and since, should seek a home in which they can live their lives unencumbered by the coercion of others.

Good luck, and good trading.



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