

Today's Notes:

1. **Back to Discovery**
2. **The Post-Crisis Discovery Portfolio: A Few Names**

PLEASE CONSIDER ATTENDING PETER GRANDICH'S CONFERENCE TOMORROW. IT WILL BE A SUPERB EDUCATIONAL EXPERIENCE, I PROMISE.

IF YOU ARE ANYWHERE ON THE EAST COAST SATURDAY AUGUST 15TH, IT WILL BE WORTH YOUR DAY TO HEAR PETER GRANDICH, JAY TAYLOR, BOB MUNOZ, LOU SCATIGNA AND YOUR'S TRULY UPDATE ON THE CURRENT STATE OF AFFAIRS.

I WILL BE PRESENTING MY POST-CRISIS MODEL PORTFOLIO, COVERING DISCOVERY INVESTMENTS IN LITHIUM, RARE EARTHS, POTASH, WATER, URANIUM, COAL-TO-LIQUIDS, BIOFUEL TECHNOLOGY, COPPER AND SILVER.

PLEASE SEE: <http://grandich.agoracom.com/2009/07/the-one-conference-you-must-attend/>

1. GETTING BACK TO DISCOVERY

It's time to get back to business. By that I mean it is time to begin to focus on your Discovery Portfolio. During the past 18 months while the recession has beaten down harshly on wealth creation – the capital markets have lost interest in discovery as in most speculative investments.

In the past few weeks we have seen a remarkable renaissance of investing spirit. It is truly amazing how the moods of the market can overwhelm the fundamentals (funny mental?). Nevertheless, since the March 7 leak of Citigroup's goods profit news the equity markets have been on a tear with only one short deviation. Couple this with yesterday's announcement that Europe's economy is bubbling (a circumstance I think whose sustainability is highly unlikely from a fundamental perspective) and the world is bright once again. People are drooling over their Bloomberg's with all sorts of graphical justifications of the good news.

It is, in fact, the Siren's Call. Another shipwreck on the rocks of Sirenum scopuli almost certainly awaits today's equity sailor. It is simply a matter of time till the Sirens pop this nascent new bubble. I shall not explain in detail the headwinds that we face; consumer inability, foreclosures, commercial real estate and increasing budget deficits. I have written enough on those areas in several recent Morning Notes. The markets care naught for these issues today. Suffice it to say that the new exuberance is most likely irrational. Congress will never hobble Professor Shiller's Animal Spirits (a must read book) with regulation. The markets' moods are age transcendent and ubiquitous. They were recently energized by debt created and thrown willy-nilly by politicians eager to retain power. The most troubling peril, in my view, is that the debt infusion process is yet ongoing. Washington will need to **issue another \$3.4 trillion in debt** to make it through 2010. If plans are to be met Washington must lever up. Who then will be lender of last

resort? What will cause the ultimate break? Will a butterfly somewhere in China move its wings and create a tornado here? Time will tell.

Enough, what about the portfolio? Why Discovery? I still maintain that the world will recover. It's just not going to happen in this upswing. Within 2 to 5 years once the excess capacity is wrung out of the system and debt repaid or written down real growth led by emerging nations will be the engine for the global economy. Discovery of all sorts will be necessary to fuel the spiraling quality of life the world will seek.

It is now time to research and begin to accumulate these discoveries. Perhaps Laurence Binyon described the difficult process of rejuvenation best in his poem, **The Burning of the Leaves**.

*Let them go to the fire with never a look behind.
That world that was ours is a world that is ours no more.
They will come again, the leaf and the flower, to arise
From squalor of rottenness into the old splendour.*

Certainly we have all experienced the "old splendour" and the "squalor of rottenness" in the past decade. We will soon experience the "old splendour" once again. I discuss a few of my portfolio thoughts below.

2. A POST-CRISIS DISCOVERY PORTFOLIO: A FEW NAMES

Bio Fuels and Food Production: Our interests have not changed much. We still like the alternative fuel issues. **Valcent** and sister company **Global Green** are proceeding albeit slowly with development of the algae bio reactor system. The Vertigo system for production of leafy vegetables and spices is now up and running in Britain at Paignton Zoo. The system has enormous implications for water conservation and land preservation. We expect its economics to be proven in the next year. The company will be in New York on Monday and Toronto on Tuesday for visits with investors.

Base and Precious Metals: Our best discovery investment in the base metal arena is still **Quaterra Resources**. Quaterra has a property portfolio of 18 properties, carefully assembled by management. The most interesting, at present, are the Freeport (FCX) deal with Quaterra on the Southwest Tintic 30 miles south of the Bingham Pit and Quaterra's 100% owned Yerington assets which include the MacArthur open pit mine, the Yerington pit (option), the Bear Deposit (also optioned), and the 379 lode claims on the Wassuk adjoining the Nevada Copper properties. The Yerington area was originally drilled out by Anaconda. These are primarily copper resources. Experts we have spoken to suggest that several porphyries are yet to be discovered. A quick look at Nevada Copper with 9.8 billion pounds of copper nearby in its Pumpkin Hollow will tell you that something might be happening in the district. We think there may be 50 billion pounds of copper in the district including Nevada Copper's 9.8 billion pounds and Quaterra's rapidly burgeoning 800 million oxide copper poundage at MacArthur. There are significant historical resources at Yerington itself and the Bear deposit.

The story of Nevada Copper (up 600% since March) may be telling us something about the Yerington District as well. We have always maintained that the district was a prime candidate for consolidation. In the past two years there has been little interest in copper. We think that is changing. Nor is Nevada Copper fully valued as NCU management continues to drill and add copper, gold and silver resources.



We are impressed with Quaterra's 70/30 carry deal with Freeport in Utah's Tintic. We are more impressed with the position the company has established in Nevada's Yerington. Their acquisition of 379 Wassuk claims adjoining the NCU Pumpkin Hollow discovery in 2008 is interesting. A 2008 airborne survey by Quaterra defined a magnetic anomaly 5 miles east of Yerington. We think Quaterra's central land positions is very valuable.

Heavy Oil, Oil Sands and Gas: We are still followers of discovery names MegaWest Energy, Oil Sands Quest, Derek Oil and Gas and DeJour. Our rationale is very simple. Oil prices are picking up steam. The price of oil may decline in the short run to lower levels (\$35 per barrel?) but longer term we are convinced that \$85 oil or higher is in our future. The IEA has continued to warn of petroleum shortages in the 5 year time horizon. If so, natural gas will have to have a role in our energy picture. It is far too cheap at \$3.50 per MCF. We think any of these names should be considered for your discovery portfolio if you do not already hold them. Please remember to utilize the Ten Point Grid for your analysis.

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