

Today's Notes:

1. The Pangea Discovery Club Nassau Conference Jan. 27-29th.
2. Jobs: How About Nuclear?

1. PANGEA DISCOVERY CLUB

In addition to my participation in the Vancouver Cambridge Conference on **Monday January 17 and January 18th**, I will be presenting at the **Pangea Discovery Club Nassau Conference Jan 27th through 29th**. This is the founding conference for the Pangea Discovery Club. I will discuss a new and more relevant risk analysis technique designed around my Discovery Factor Model. In addition I will also be discussing the new role of the US government in financial regulation and how the Congressional changes shaping up for 2010 will impact discovery. Believe me new legislation will certainly impact all our discovery efforts.

If you are interested, and you should be, I recommend that you contact me at info@DiscoveryInvesting.com or visit the web site at: <http://pangediscoveryclub.com/>

2. JOBS: WHAT ABOUT THE NUCLEAR INDUSTRY?

"It's hard to see the kind of robust recovery that's really going to generate the 10, 11 million jobs that we need to get back to where we were before it started,"

Harvard Professor Kenneth Rogoff, December 8, 2009

If experts such as Harvard Professor Niall Ferguson are correct in their world view, we are on the verge of a third jobless recovery in the West. Professor Ferguson suggests that the world is now in the throes of a 500 year socio-economic tipping point. Professor Kenneth Rogoff, also of Harvard, suggests that the level of employment opportunities are not about to revert to pre-recession levels any time soon. He suggests that it will require many months of 500,000+ job creation to revert to the average level of unemployment (6%). Obviously job creation requires growth and not just 2% economic growth. That perhaps is the largest reason that the world is tipping – not our way. Yesterday Speaker Pelosi said that she would consider a VAT tax to help rectify the growing budget deficit. Of course any taxation¹ must be deleterious to real and sustainable economic growth. Americans are now going to be taxed. There is no way around that and my sources suggest it will be retroactive to January 1, 2010.

¹ There will be all sorts of new and revised taxation proposals. These may include income, Value Added Tax, capital gains tax rate increases, as well as the recently (November 24th) proposed and loonier Obey / Levin war surtax on wealthy Americans, estate taxation (already finalized), and the Wall Street / investment transaction tax.

Taxes are anathema to job creation and the US citizens will very shortly become one of the most highly-taxed in the world. Aside and apart from the headwinds that these new taxes will offer, Kenneth Rogoff notes,

“It's hard to see the kind of robust recovery that's really going to generate the 10, 11 million jobs that we need to get back to where we were before it started

It's different than a normal recession because it's all more drawn out and deeper. Employment comes back very slowly – for several years' unemployment will get worse before its gets better. The total amount of money going to workers in nominal terms may not come back to its peak till late 2011.”

Perennial bear David Rosenberg, Chief Economist at Gluskin Sheff, also says that employment renewal will be more difficult this time.

“There is a youth unemployment crisis in the United States of epic proportions and a record number of Americans have been out of work for longer than six months in part because the “aging but not aged” crowd is not retiring as early as they used to.”

He sees a larger unemployment number in December. He claims that the ludicrously low level of 11,000 new job losses last month was a mirage². Of the amazingly low 11,000 reportedly unemployed in November against a Street Forecast of 130,000, he says,

“But we know from the ADP report that service sector employment fell 81k, which was fractionally worse than the 79k decline in October. ...which would imply a 111k decline when December's figure (is released)....

So as we wonder how the headline number could only be -11k on Friday, there were some very lumpy increases in some very non-cyclical segments of the economy: Administration / waste management +87k, Health / education +40k, Government +7k

The rest of the economy shed 145,000 jobs and the declines were spread across nearly 60% of the industrial base from retail, to transports, to manufacturing, to construction. For some reason, we didn't see this dichotomy mentioned anywhere in the weekend press.”

Today I see no evidence of inflation in the economy. I see no evidence of a strong recovery that brings with it necessary job creation. In fact if you believe the revered Harvard professors, Rogoff and Ferguson, and give credibility to the naysayer Rosenberg, you must conclude that the employment situation in the US is far from stable – even though we may now finally be bottoming.

But a very much more important issue is the longer term employment picture in the US and Canada. Mort Zuckerman captures this picture most realistically in his article on the structural employment picture. Zuckerman notes that 5.9 million Americans have been jobless for more than 6 months. We have lost 6.6 million manufacturing jobs in the US since 2000. 33% of all American families have a immediate family member or close friend

² ***“Rosenberg Sees Friday's Employment Numbers As Too Much of a Good Thing,”*** Dec 7, 2009

who have lost a job. Housing, as well, is suffering in a negative bi-directional feedback loop with employment. As Zuckerman suggests that 23% of all American households have mortgages that exceed the value of their homes. Americans are indeed nervous and the stock market rally is not allaying that nervousness in any way. Americans are rapidly becoming demoralized.

“The nervousness of millions of Americans is entirely justifiable. They see economic headwinds all about them. The biggest economy in the world is held hostage by shoppers and consumers who are scared and pessimistic.”

Always and everywhere it is the small business start ups that are responsible for the initial resurgence of the employment picture. Small businesses are just not picking up the employment slack. Businesses of all sizes are in fact focusing on cost cutting rather than organic growth.

It is going to take a significantly long time for the excesses of the past decade to be squeezed out of the system. When they finally are reduced we will likely be left with the promise of 4 to 8 million “Green” jobs. The only problem is that no one – no not even President Obama or his Czars - has any idea what a green job is or whether it will pay a fair wage that will allow those millions now out of work, learning to build solar panels or sell insulation, to live a decent lifestyle.

Yesterday I found an even more troubling indication of where the once mighty industrial country we live in is now headed. The Washington cognoscenti are now realizing that nuclear energy must be part of the equation. There is one very big problem. We have lost our lead in that industry as well. In an industry that could easily create a million or more high tech jobs, the US is almost entirely out of the picture.

For example, Japan’s Toshiba bought Westinghouse in 2007 and China has copied the Westinghouse design and will have her first 4 reactors completed by 2011. China plans to build 60 reactors – and soon. China also purchased 2 nuclear reactors from Russia. Where do you think the heart of the nuclear industry will be centered? China and will be producing her own nuclear systems and on the cutting edge of new nuclear technology. India is now buying reactors from Russia and Canada.

Everyone is on the nuclear train – except the US. Even Russia is moving rapidly on the nuclear scene to build modular nuclear plants. She will deliver her first “Mini-nuke” in the very near future. France has Areva and decades of experience in the industry. Our neighbours to the north have a nuclear IP in AECL’s Advanced Candu technology. But even Canada seems to be on the nuclear treadmill.

Meanwhile even though it is now obvious in the US that nuclear energy is critical to the US because it is carbon free we are delaying building through many levels licensing and hence of bureaucracy. Only Babcock and Wilcox in Lynchburg, Virginia has a modular nuclear design but they are years away from licensing the technology and implementation. In fact even B&W’s technology is being developed in part in Cambridge, Ontario. China and Russia will be there first because they have chosen to act. Japan Steelworks operates the world’s only forge able to produce the pressure vessels for nuclear reactors. They have

expanded their facilities and will be able to produce 12 such vessels per year. Who do you suppose is first in line for the reactors? Not only does a nuclear industry create jobs but the jobs provide very high quality, technology-oriented careers. The “green jobs” proposed here in the US are little more than service sector jobs.

It is difficult to understand how our leaders think we can restore good jobs in this country when we continue to tilt at windmills and enact punitive taxation regimes of all sorts from carbon caps to health care to income. Something must change and change very soon or we are all in big trouble.

One additional fact is important, even critical, for you to remember. No country can survive and prosper bringing a higher level of lifestyle to its citizens without cheap, clean energy. This is an undeniable fact of life. This Morning Note is addressed especially to all my good friends in Washington D. C.

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