

Today's Notes:

1. **Discovery Investing**
2. **A Discovery Investing Case Study**
3. **The Money Multiplier: Not Good**

1. DISCOVERY

About a decade ago I began to realize that there was a big hole in investing theory and practice. At the time I didn't realize that my ideas would morph into a new approach that I have named Discovery Investing. The question you might ask is how this investing discipline is different and, more importantly; how is it better than strategies that academe has provided.

First, though, we must define the technique. Discovery Investing is a discipline that seeks significant value creation through market recognition of a world class discovery. For example the discovery of a cure or effective treatment for cancer would be worth billions of dollars as in the recent case of Imclone and its pancreatic cancer treatment Erbitux. More recently we recommended Western Silver as a Discovery company. After 6 years of drilling in Zacatecas, Mexico the company, under current Quaterra Resources CEO, Dr. Thomas Patton had discovered millions ounces of gold and several hundred million ounces of silver.

Discovery Investing seeks these types of wealth creating opportunities. They may be found in the natural resource sector, the bio tech sector, high tech or, today, in the infrastructure space. The reformation of the Utility sector (the development of the electrical grid) is a good example of how the Discovery Space tends to expand and change over time. Almost universally a major discovery pays a wealth dividend. The recent focus on health care and alternative energy discoveries has spawned dozens of new discovery companies.

This is virtually an untouched investment space. Usually these stocks of discovery companies are small and illiquid micro caps especially at the beginning of their life cycle. Nobody cares about them. They are "under the radar screen." I developed a ranking mechanism to identify the best of these opportunities. It is called the Ten Point Discovery Factor Model. It is easy to use just look at the grid's analysis points listed below. Each discovery factor is rated by its potential between 1 and 10 (10 points being the optimal rating).

1. Discovery Potential is in the imagination but is it real? Does this discovery, in your analysis; have "world class" value-creation potential?
2. Ownership share: does the company own control of the asset; is it close to 100%?
3. Is the potential discovery a "game changer:" is it revolutionary, what is the immediacy of its use (is it useful today?) and the progress toward its realization (are we getting closer?).
4. Is there diversification of discovery risk? Is there a chance for serendipity (good luck)? Are there multiple opportunities?

5. Management and the Board of Directors; track record of mgmt, ownership and insider buying / selling, management option strategy.
6. Can you identify a driving Cycle (for example the Global Quality of Life Cycle?) and a Catalyst (the discovery?).
7. Is this a Contrarian discovery play? Are you buying into this for pennies?
8. Is there financial strength: superior balance sheet and income statement management; sustainability of operations, dilution strategy.
9. Does the company communicate adequately with employees, shareholders and customers in its stakeholder relations program?
10. Does the investor exhibit self control, patience, courage, the ability to sustain loss, and the ability to continue to invest?

2. A DISCOVERY INVESTING CASE STUDY

While a professor of Finance at James Madison University and the University of Virginia I taught case studies and wrote a casebook on investing strategy. Teaching case studies is a challenging practice. It takes great skill and much practice. I was always in awe of those who could teach an interactive case study and coordinate the students into a constructive discussion and eventually a conclusion, of their own making, in a short 60 minute class.

Today I write a case study on Antioquia gold. I ask you to serve as the student give feedback on my attempt at education in the investment space. The purpose is to acquaint you with the discipline of Discovery Investing that I have developed over the past decade.

Antioquia Gold (AGD TSXV) is a micro cap stock with a major investment in the gold fields of Colombia. As I was born in Colombia this company is of more than passing interest to me. But the more I learn about Antioquia Gold, its properties, its relationships in Colombia and its management team, the more interested I become in a company that trades for less than C\$.50 per share.

I have recently begun my due diligence on Antioquia. The framework I rely upon, that has been very profitable, is the Ten Factor Discovery grid analysis listed above. It focuses on discovery wealth creation as opposed to a focus on the company itself. This is a very big difference from most analytical techniques. It is the potential for a realization of discovery that creates value initially not the fabric of the company in this model.

Antioquia gold is an Incubator Discovery company¹. This means the company is in its earliest phase of the discovery effort. As such this is the stage from which most of the value accretion will occur. This is the stage, in which you can acquire a “meaningful” position. Let’s face it – why own a discovery company, with its generally higher risk profile, if you do not own enough shares to make a significant change (a Game Changer) in your life.

For young discovery investors 500 shares is a very good place to start. 500 shares of Antioquia will cost ~C\$250.00. For fellow Baby Boomers I have found they will universally make much larger investments (1 million shares?) if they embrace on the discovery

¹ We divide the Discovery Investing Space into three sub spaces: Incubator Companies, Mature Discovery Companies and Legacy Companies. Each category offer a different risk / reward ratio permitting diversification and reallocation under times of market stress.

opportunity. For example owning 100,000 shares of Western Silver at 50 cents per share yielded well over \$2 million based on Glamis' discovery of Western's Peñasquito in 2006.

In 2007 Antioquia acquired a significant landholding with gold, copper silver and moly potential in the Colombian province of Antioquia. The market capitalization is small, about \$25 million (50 million shares out stock price C\$.49). So the question of this case study will be – should we be a buyer of this stock and how much should we buy.

Let's answer the 10 point grid or more appropriately let's rate the desirability of this company based on the Discovery Factors that follow. Please remember that these analyses are used to rank this company relative to its peer group by estimating a value from 1 to 10 for each factor. I have not visited the company's properties at this time so this analysis is very early but useful.

1. Discovery Potential is in the imagination but is it real in this case? Does this discovery, in your analysis; have “world class” value-creation potential?

Early, but definite world class potential for ~10 to 20 million ounces. Colombia has produced 80 million ounces of gold. It is the largest producer of gold in SA. Colombia is one of the safest mining locations in S.A. There is very good infrastructure and local mining expertise in Antioquia. 75% of Colombian gold comes from Antioquia and another area in Colombia. AGD bought out 33 artisanal miners who now work for the company. Many large cap companies (Anglo, Barrack, etc.) are present - good chance for eventual takeout. The properties have been mined artisanally for decades - *“you find a mine where there is a mine.”* There are 20 old artisanal mines in the Cisneros area that AGD owns 100%. Good gold samples. Much more exploration warranted. 3000 meters of drilling underway. There will be a price catalyst on assay returns. This is a Red Lake (Goldcorp in Northern Ontario) look alike with 2 meter wide lode vein systems and the possibility of lower grade clusters between veins.

2. Ownership share: 100%? Does the company own control of the asset?

Yes. Antioquia owns 100% of Cisneros property including both Guayabito (purchased for \$1.6 million in 2007) and La Manuela (1 sq. km.). AGD has a 90% stake in Bullet JV which could be strategic (5,424 hectares). Just did a deal with IGTEK that gives it a potential position in 33 additional properties. AGD has bought out 33 artisanal miners and employed many.

3. Is AGD's potential discovery a “GAME CHANGER?” Is it revolutionary, what is the immediacy of its use (is it useful today?) and the progress toward its realization (are we getting closer?).

For shareholders in Antioquia this property exposure in many different areas of Colombia and connections of management with mining authorities gives this one company Game Changing potential for its stakeholders. AGD is early in their progression to discovery. They are making good progress in land acquisition and consolidation. They are in the field with the drill - the true catalyst.

4. Is there diversification of discovery risk? Is there a chance for serendipity (good luck)? Are there multiple opportunities?

AGD has made good acquisitions, IGTEK and Bullet JV, as well. Four metals (gold copper, silver and moly) and access to many properties in Colombia offer significant diversification. Much more important the company has access to many more properties in Colombia and could become a very large exploration and development player in the region. This enhances the probability that a major mining company will want to own this company eventually.

5. Management and the Board of Directors; track record of mgmt, ownership and insider buying / selling, management option strategy.

Key known strength is management's political relationships in Colombia. Management appears experienced with a good historical track record. Founders own 49% of the shares. Colombian ownership is 10%, management and board 24%. No evidence of inside selling. Need more time and research with management before can make a definitive grading on this factor.

6. Can you identify a driving Cycle (for example the Global Quality of Life Cycle?) and a Catalyst (the discovery?).

Catalyst? Catalyst here is pending discovery. Results from 28 holes are expected shortly. Good results will propel the shares higher. Longer term catalyst is an understanding of the ore body and the economics of the deposit. That means more drilling.

Cycle? For AGD shareholders, the powerful / sustainable cycle is the tremendous secular gold market which we expect to top \$2000 per ounce within 3 years. In addition the copper and silver credits could be significant as we see copper trading between \$3 and \$5 per pound and silver between \$20 and \$35 per ounce in the three year time horizon. Global QOL cycle in Asia is one secular cycle in place and the potential for significant inflation / governmental default is the other.

7. Is this a Contrarian discovery play? Are you buying into this for pennies?

No not really contrarian but very, very cheap, given the land position and potential. At this stage you are trading pennies what could easily be dollars in the 18 month timeframe. One look at mature Discovery investment Ventana Gold gives some perspective on the potential for AGD.

8. Is there financial strength: superior balance sheet and income statement management; sustainability of operations, dilution strategy.

For an incubator financial strength seems OK. Fully diluted, there are 76 million shares outstanding. No cash flow at present. Operations appear sustainable and it will be key to reach the next price level. AGD has very significant exposure to mineral assets in Colombia.

9. Does the company communicate effectively with its employees, shareholders and customers in its stakeholder relations?

Good communications via seminars and press. Northern Miner article (*Antioquia Gold has High Hopes for Cisneros and Colombia*) of October 26th sets the stage for the IR and communications strategy for the company. AGD has an adequate web site. No difficulty reaching the Chairman for an interview – awaiting an analyst trip to visit the Cisneros site.

10. Does the investor exhibit self control, patience, courage, the ability to sustain loss, and the ability to continue to invest?

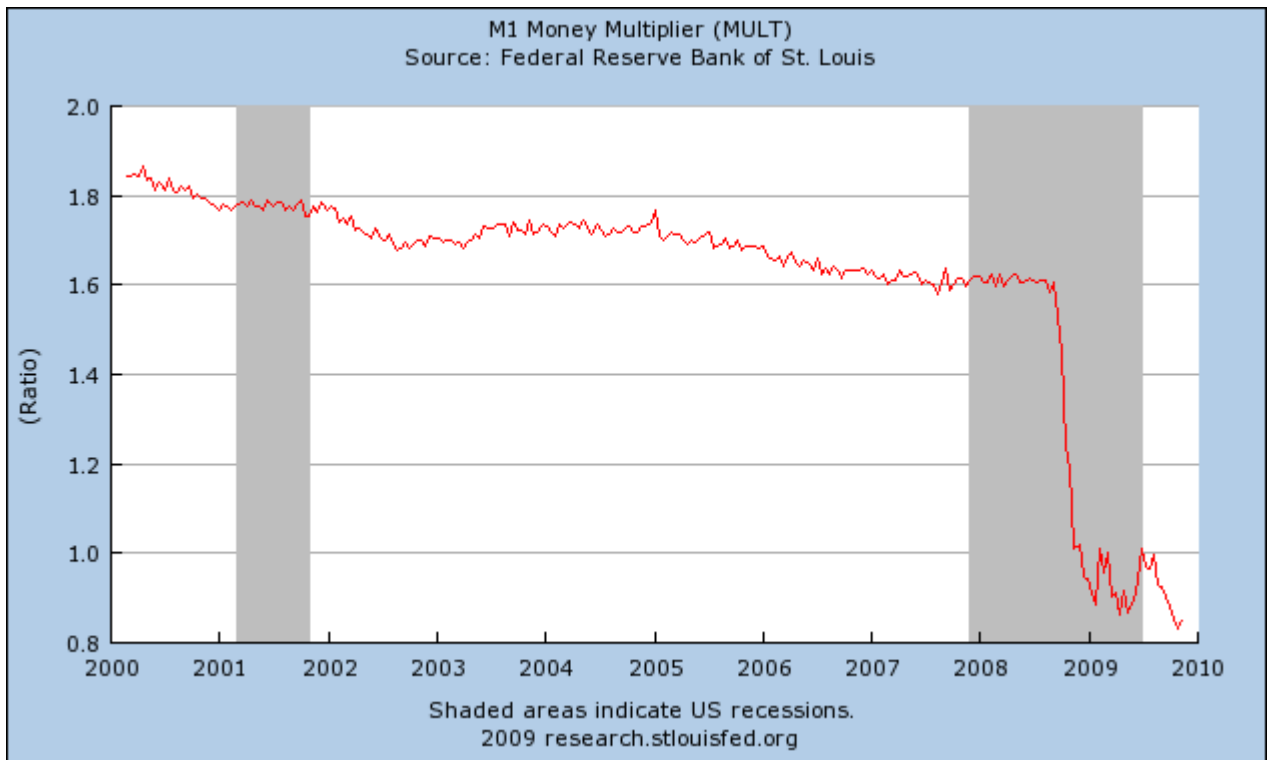
This is the key element because you must always realize that the discovery process is long term, costly and hence risky. Is this an investment that you believe will sustain itself and create value in thick and thin economies? I have not purchased AGD shares at this time pending further research. I will allow you to complete this case

However given these factor assessments I rank AGD in the 77th percentile (top quartile) of my Discovery Incubator universe. This is a very good ranking. I leave it to you to study Antioquia (use the web site, web articles, call the company) and award a number from 1 to 10 (10 best). See what you think. In order to do Discovery Investing you must practice it. Here is your opportunity. Any score above 70 (when you add all ten factors up) is a very, very good score. Be tough!

2. THE ST LOUIS FED MULTIPLIER

This AM the unemployment statistics were unexpectedly good – we lost only 11,000 jobs last month. Street analysts expected a loss of 130,000 jobs. The equity markets are soaring in a knee jerk overreaction. Gold has fallen \$30 in 5 minutes. But I present one graph which I think speaks for itself. It is the St. Louis Fed money multiplier. As you can see even though the recession has ended, according to the St Louis Fed, the multiplier is still at Great Depression lows. Until the credit markets lend again and the money created by the Fed is itself multiplied in the fractional banking system we are not out of the “economic woods.”

Sorry but I will wait and see how these numbers are modified.



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