

**Today's Notes:**

1. **Bookends**
2. **What Women Want (and Men Too)**
3. **Quaterra Resources: A New Silver Discovery in Mexico**

**1. BOOKENDS**

One chapter in the sorry saga of the Great Contraction (phases 7& 8 in Bernice Cohen's fine book and must read book, "The Edge of Chaos") began on the evening of Sunday, July 13<sup>th</sup> 2008. Then Treasury Secretary Henry Paulson felt compelled to speak to the world on the viability of Fannie Mae and Freddie Mac (GSEs) before Asian markets opened. IndyMac had failed on July 11<sup>th</sup> and China had begun to sell the GSEs. The Japanese and other G8 players had been saber rattling for a stronger dollar since March. The dollar at the time was near its low point. OECD countries intervened soon after to buy dollars in an attempt to "fix" a higher US dollar. The results were calamitous. A global short dollar covering of huge proportion followed. US dollars, Japanese Yen and Swiss Francs were frantically sought to cover (de leverage) debts. All other currencies in the world declined. Most commodities fell. Gold held its value well.



The bubble was waiting for this catalyst, Cohen's phases 7 & 8 of Chaos – massive selling. Mr. Donald Coxe correctly called this event “the midnight massacre of July 13<sup>th</sup>”.

Wednesday morning I received a call from an analyst at MarketWatch. She was puzzled. Why had gold had declined (over \$20 at the time)? There was short covering in CitiGroup. The financials were soaring.

It is possible that all this was noticed during the Fed's FOMC meeting taking place on that day. The Fed would absolutely not have instigated this most severe measure of creating another \$1 trillion for the purpose of Quantitative Easing (QE) and mortgage market support if it did not FEAR global deflation. It just would not have happened. The Fed watched the Brits in their QE, ignored the Japanese QE experience, and, most important, observed the most conservative Swiss competitively devalue their Franc last week. Is this a tipping point for the world's economies?

In Wednesday's MN, I made 6 points, two of which were:

**4) Liquidity traps abound as money is printed and interest rates approach zero. We expect to see the US FOMC begin “Quantitative Easing” (QE) if not today – soon.**

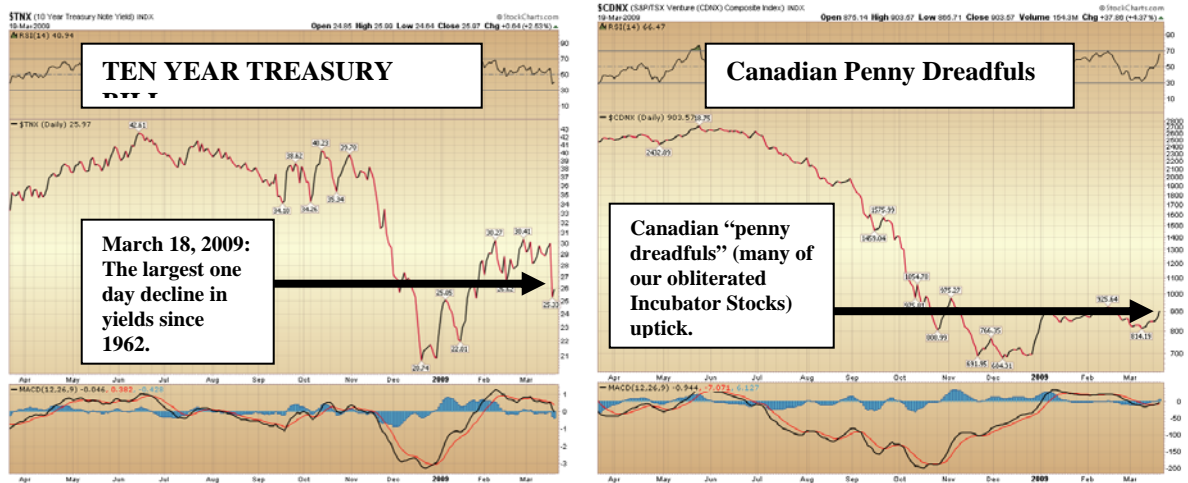
**5) The Great Question, as yet unanswered is; will it be inflation or deflation? At present we are tipping precariously into a deflationary phase despite all the firepower aimed at the world's economies. This AM PIMCO's Bill Gross warns the world, and Europe in particular, that deflation is the great threat.**

The Fed must have felt the same angst. We now have an answer for these issues. We are now into QE as are the Brits and the Japanese. Europe is the laggard – far behind in even suggesting a fiscal boost. Apparently the EU trusts her social safety nets. Bonne chance, mon amie!

The markets reacted to the FOMC announcement with a vehemence not seen in a decade, assuming inflation is pre-ordained. They reacted as if this Fed's most desperate gambit is truly a “Game Changer.” Gold soared \$70 at one point. Silver \$1.66. Copper ran to \$1.81.



The market's knee jerk (I emphasize knee jerk) reaction was to bid commodities. Instantaneously inflationary expectations were discounted into commodity prices. With a quick look at the Ten year Treasury Bill shows a reaction not seen since 1962. Yields fell by 50 basis points. Markets expectation was of interest rates propelled lower by direct Fed purchases of 2 and 10 year T-bonds. In QE the idea is to most forcefully lower rates and stimulate borrowing and hence growth. This requires that bankers lend and consumers borrow. It also requires a change in consumer psychology which, as we pointed out Wednesday, has been obliterated by \$5 trillion in wealth liquidation from the massive global selling begun in July 2008.



The question this AM is the potential effectiveness of the Fed's quantitative easing. The market's initial reaction was that inflation is on the way, and with it, growth. But the problem with QE is that the Fed must be exact. Too little money creation and the economy will remain in its liquidity trap. Too much and there is a risk of runaway inflation or, as NYU Professor Nouriel Roubini asserts, stag-deflation.

I am now reminded of the Mother Hubbard nursery rhyme this AM. You know – she went to the cupboard but it was bare – no bone! There may be more remedies to conjure in Washington. Indeed, next week Treasury Secretary Geithner must sell a crucial plan for remediating toxic assets in banks and insurance companies. No one has yet been able to solve this most important problem. We are running out of traditional solutions. How about Mother Nature? Will any company anywhere be allowed to fail – ever?

Some economists are now predicting that a targeted inflation rate will extract us precisely from this miasma. This is possible. We must pray for that best of all outcomes. But we must yet observe the longer term reaction. The massive currency correction of Wednesday is being undone as I write. Without solutions to housing, toxic assets and unemployment, economic growth seems elusive to me – at least for the duration of this year. Husband your resources unless you see Game Changing discovery opportunities.

There are also some negative impacts of this move- just as there were unanticipated negative impacts from the Paulson speech of July 13<sup>th</sup>. Oil and natural gas prices are now on the rise. The effective tax breaks from lower oil prices is beginning to vanish. The geopolitics of oil will begin to reassert itself at \$75 oil. And still our government tilts at windmills.

I have been wrong many times before. Nevertheless, this may be the other bookend of the wealth destruction process that began on July 13<sup>th</sup> 2009. Mass psychology is difficult to change even though, when the change comes, it is instantaneous.

In other words, perhaps this is the end of the beginning.

## 2. WHAT WOMEN WANT (MEN TOO)

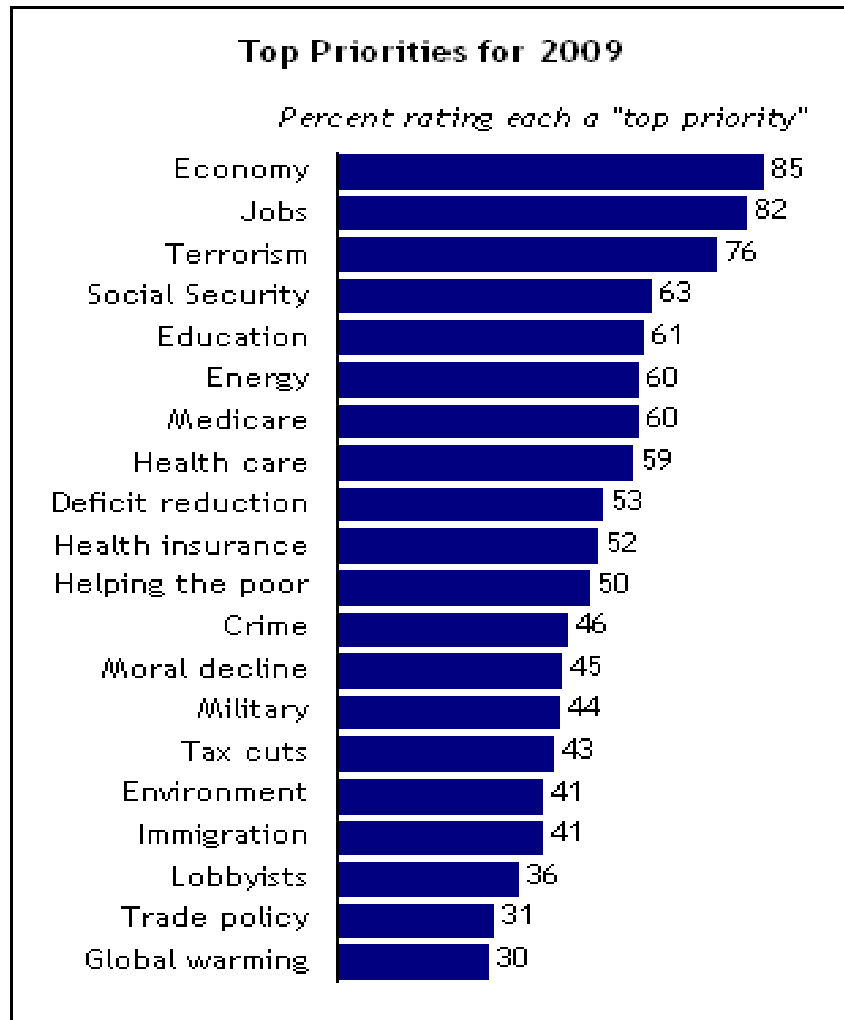
In reviewing a recent PEW poll (January 31), I was very surprised to see just how mom and pop are thinking. All we hear from the environmental lobby and the Congress is how endangered is the environment and how everyone worries about the polar bears. Dear D.I., it is just not true. Global warming for example is at the bottom of the list of concerns. GW support is actually declining YOY. Protecting the environment as a top priority declined amongst both men and women over the past year – and in fact amongst every major group surveyed by PEW. Even liberal democrat support fell from 74% to 57% YOY. Yet the Obama Administration dallies with as yet unproven and uneconomic (in scale) green energy proposals. This Obama / Browner program is destined to fail if this dynamic continues.

<b>Protecting Environment Declines as Top Priority</b>			
<i>% rating environmental protection as a 'top priority'</i>			
	Jan 2008	Jan 2009	<i>Change</i>
	%	%	
Total	56	41	-15
Men	55	39	-16
Women	57	43	-14
18-34	55	43	-12
35-49	58	41	-17
50-64	56	35	-21
65+	57	45	-12
College grad	46	35	-11
Some college	58	36	-22
HS or less	61	48	-13
Republican	39	20	-19
Independent	56	41	-15
Democrat	67	54	-13
Mod/Cons Dem	63	54	-9
Liberal Dem	74	57	-17

Only 43% of women and 39% of men consider environment a top priority. One issue that stands out early in this Administration and Congress is an inability to prioritize. It seems our

spendthrifts in Washington fail to realize that this country is not wealthy enough to fund every program conjured in the bowels of the Congress.

Overall the February 2009 PEW Poll rated Global Warming (GW) as the **least most important** top priority of Americans. The poll showed that support for GW declined each year to 30% in January 2009. Highest top priority issues were the economy (85%), jobs (82%) and terrorism (76%). Reducing health care costs (59%) ranked 8<sup>th</sup> in terms of Americans' priorities. It had fallen 10% since January 2008. Social security (63%), education (61%) and energy security (60%) issues were on American minds. Global warming and the environment were ranked in the bottom quintile – relative to critically important issues.



Americans also want tax cuts according to the PEW Poll. They are unlikely to be satisfied as the Obama spending machine rolls forward. One alarming finding is that Americans want protectionism (buy American). This is anathema in this environment though politically correct. Expect more protectionist rhetoric from our solons in Washington even though trade wars at this point in the global crisis will be dangerous – as they were in the 1930s. Do trade wars ever lead to hot wars?

**Plurality Sees Tax Cuts as More Effective -  
Most Favor "Buy American"**

<i>More effective way to stimulate economy...</i>	Total	Rep	Dem	Ind
	%	%	%	%
Tax cuts for indivs. & businesses	48	63	41	47
Spending on programs & infrast.	39	26	47	39
Both equally (Vol)	4	3	4	4
Don't know	9	8	8	10
	100	100	100	100
 <i>Requiring that money is spent on US goods/services...</i>				
Good idea - keeps jobs in the U.S.	66	66	70	63
Bad idea - risks trade retaliation	24	24	21	28
Both (Vol)	2	2	2	2
Neither (Vol)	2	2	2	3
Don't know	6	6	5	4
	100	100	100	100

### **3. QUATERRA RESOURCES: SILVER DISCOVERY**

There was a very nice surprise yesterday for shareholders and investors in Quaterra Resources. The company announced a near surface drill intercept of 32 meters of approximately 1 ounce silver (28 grams) in one of its first 6 holes at Las Americas. Hole AMD-3 also yielded 8.2 feet of 6.5 ounces of silver – rock worth about \$85 per ton. As you know we think silver will move higher over the next year. Quaterra has a land position in Durango, Mexico of 363 square miles and one of the best Mexican hands in Quaterra's Manager of Mexican Exploration Tom Turner, who along with CEO Tom Patton was responsible for the major gold and silver discovery at Peñasquito (now owned by Goldcorp – thank you very much). In addition, surface sampling at Mirasol's Loma Aguila turned up ore quality gold (20% of samples).

The stock has been hurt badly since it listed on the AMEX last March as you can see. However the company has continued to develop its copper (MacArthur, Tintic) holdings, molybdenum historical resources, and last week presented a 25.1 million ounce silver resource (30 gram cutoff) at Nieves in Zacatecas. I think they have just scratched the surface there as well. In short, in addition to a growing copper resource, potentially very large molybdenum / tungsten resource, Quaterra is becoming a significant silver company. Look for more results in the future. The news release yesterday noted,

***“Quaterra Resources Inc. today announced that it has intersected significant silver mineralization in one hole drilled at its 100%-owned Americas project in Durango, Mexico. Six widely spaced reconnaissance core holes totaling 2,515 meters were completed at Americas in the fourth quarter of 2008 to evaluate a series of northwesterly striking epithermal quartz veins.***

***One of the holes contained significant silver mineralization. Hole AMD-3 intersected 32 meters of 28 g/t silver in the Marimar vein beginning at a depth of 80 meters, including***

*2.5 meters averaging 222 g/t silver (8.2 feet averaging 6.5 oz/ton). The Marimar vein is 300 meters east of the other known veins and surrounded by post-mineral alluvium.*

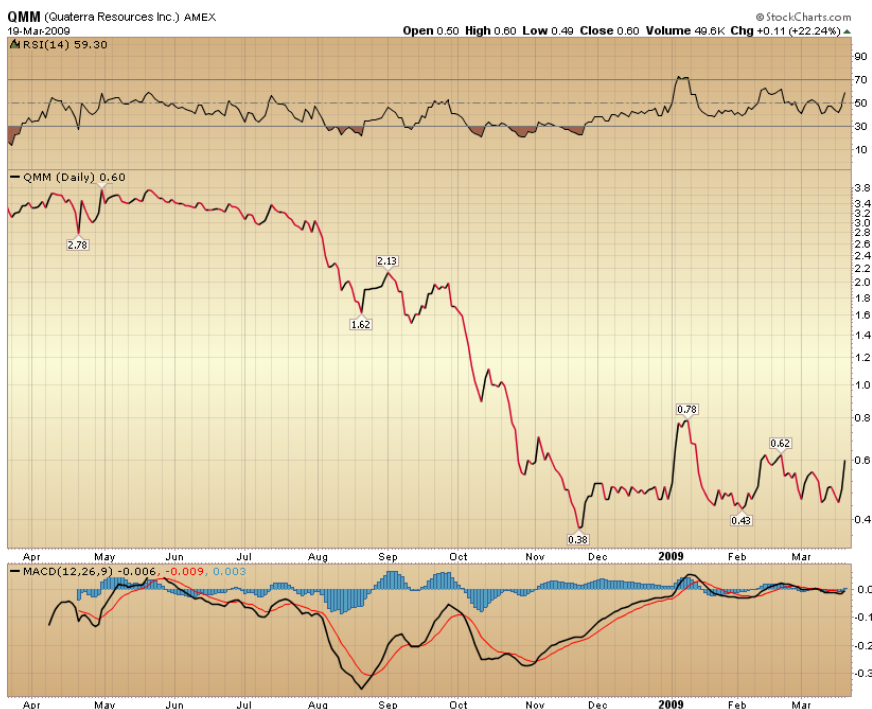
*Americas forms part of the Company's Americas-Mirasol-Tecolotes projects, a group of contiguous concessions covering an area of 94,107 hectares (363 square miles), located in eastern Durango in the central part of the Mexican Silver Belt.*

*Continued mapping and sampling in the Mirasol concession, which is adjacent to Americas, has identified a new gold prospect at Loma Aguila. A low-lying zone of silicified limestone outcrop and rubble crop covering an area of about 100 meters by 150 meters in the midst of a flat alluvial plain contains anomalous to ore-grade gold mineralization, with 31 of 139 rock chip samples (22%) containing gold values greater than 0.1 ppm gold. Six samples contain greater than 1 g/t gold including a high value of 2.78 g/t. The showing is interpreted to be part of a hydrothermal feeder vent at a deeper erosional level than other mineralized showings in adjacent areas.*

*Tom Turner said, "The Americas-Mirasol-Tecolotes concessions cover a huge hydrothermal system in the heart of the Mexican Silver Belt ... It is encouraging that systematic mapping and sampling continue to delineate high-quality drill targets."*

*Additional mapping, sampling and geophysical surveys are planned for both the Americas and Mirasol prospects, with drilling tentatively scheduled to begin in the second half of 2009."*

These are difficult times in the mining exploration sector. It is difficult to finance at these price levels and in this atmosphere. But copper's apparent upturn and silver's potential upside give us confidence that this management team will succeed. I own shares in Quaterra and have never sold a share.



*The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words “plan,” confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47, Valcent Products (300,000 options), Global Green Solutions (400,000 options) and War Eagle Mining. He owns shares and in Goldcorp, Senesco Technologies, DataMeg, Immtech International, Horseshoe Gold, Derek Oil and Gas, Terraco Gold, US Silver, Neuralstem, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.50 for 5 years, for services as a financial advisor. In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.*