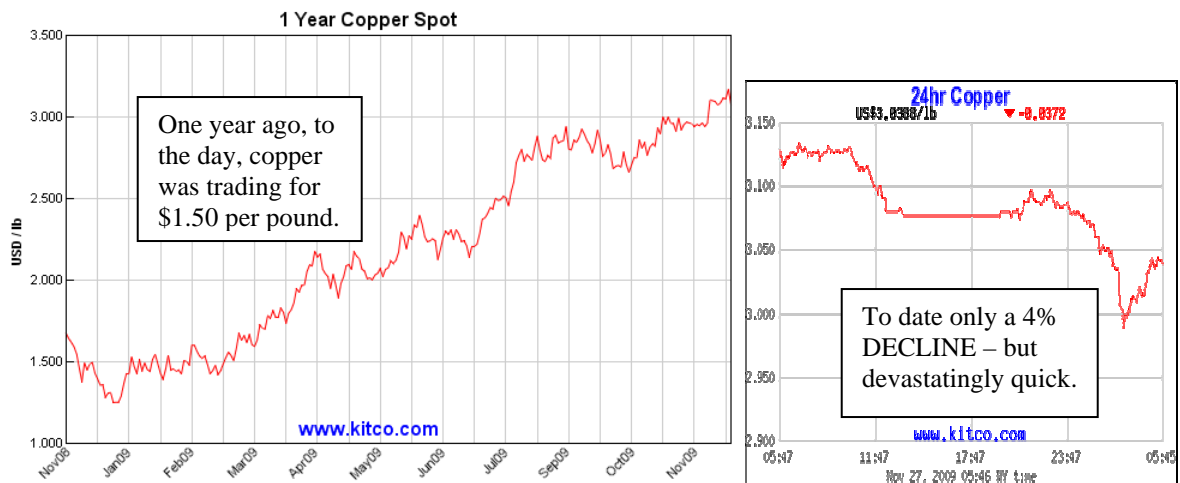


Today's Notes:

1. BLACK FRIDAY: BLACK LEGACY

It requires only a relatively small perturbation to initiate a market waterfall. For months now gold and silver have been screaming ahead – along with the US equity markets. The MSNBC talking heads and every hopeful and aspiring fund manager on Bloomberg has trumpeted the good news.

Within the past year, till yesterday, gold had risen 44% - within the past 30 days 14%. From this point last year copper had appreciated over 100% - closing Wednesday at \$3.13 per pound. Yet in a very short time period (24 hours) gold has fallen \$37 per ounce, silver \$.88 and venerable copper has fallen from its 52 week high point high point, 12% to \$3.03.



For some time now the US dollar carry trade has been dominant. The only policy our government (the Federal Reserve) appears able to follow consistently is one of zero or negative interest rates. This has emboldened investors to borrow for near zero interest rates and invest in everything that is real; gold, silver, copper et. al.

“Why a zero interest rate policy,” you ask?

- 1) US unemployment is at 10.2%. It is almost certainly headed higher.
- 2) The FDIC now indicates 542 smaller banks are in trouble and the FDIC is now US\$9 billion under water itself. My contacts at the FDIC tell me that perhaps double that number of troubled banks is closer to the truth.
- 3) Home defaults and foreclosures in the US are rising. This extends through 2011.
- 4) Finally this Congress seems intent on increasing the deficit for years to come. This is akin to throwing gasoline on the fire. Mom and pop are beginning to realize that taxes are headed higher – for everyone.

No economy can prosper under these constraints. The US economy must have real growth in GDP of 5% or more to carry the debt load that the Congressional Budget Office forecasts by 2030 (\$50 trillion).

The now universal consensus of the demise of a dollar-based reserve currency world has caused a precipitous dollar decline. The sinking “dollar boat” has also been tilted dangerously to one side. This AM, this “Black Friday,” the margin clerks are in control. This situation seems eerily similar to the weekend of July 13, 2008 when IndyMac failed. At the time, Treasury Secretary Paulson felt compelled to reassure China before Asian markets opened that the US would guarantee China’s exposure to Fannie Mae and Freddie Mac debt to the tune of \$200 billion. Within a few days the US dollar soared and equities and commodities fell for about 7 months. By September Lehman, AIG and dozens of other financial entities has failed or were being bailed out by the US taxpayer.

During the past few weeks it has become increasingly obvious that Dubai, one of the largest Emirates in the UAE, was becoming insolvent. It now appears that between \$60 and \$100 billion in loans to European and UK banks may be in trouble. A collapse in real estate appears, once again, to be the villain in the Dubai scenario. The number (\$60 billion) in itself, is insignificant- after all AIG’s bailout bill is probably somewhere around \$100 billion. But Europe’s banking system has been weakened by the first phase of the global financial crisis. This event may just be the “hit to the bridge” that derails the global system once again. That, at least, is the message that seems to be spreading around the world’s capital and currency markets this AM.

For example one look at the US dollar and its fiat cousins says it all. Courtesy of Kitco (6:34 AM Eastern Time).

Currency	Chg% X=1\$USD	NY Time	X=1\$USD	X\$USD =1	Gold Price/oz	Gold Chg	Gold Chg%
<u>US Dollar</u>	--	11/27-06:34	--	--	1160.00	-32.70 ▼	-2.74%
<u>Australian Dollar</u>	-1.58%	11/27-06:31	1.1123	0.8991	1290.21	-15.80 ▼	-1.21%
<u>Brazilian Real</u>	-0.60%	11/27-06:33	1.7538	0.5702	2034.41	-44.95 ▼	-2.16%
<u>British Pound</u>	-0.73%	11/27-06:33	0.6106	1.6379	708.24	-14.66 ▼	-2.03%
<u>Canadian Dollar</u>	-1.26%	11/27-06:34	1.0723	0.9326	1243.81	-19.20 ▼	-1.52%
<u>Chinese Yuan</u>	+0.01%	11/27-04:51	6.8246	0.1465	7916.54	-223.64 ▼	-2.75%
<u>Euro</u>	-0.78%	11/27-06:33	0.6718	1.4886	779.23	-15.76 ▼	-1.98%
<u>Hong Kong Dollar</u>	+0.00%	11/27-06:29	7.7454	0.1291	8984.66	-253.63 ▼	-2.75%
<u>Indian Rupee</u>	+0.10%	11/27-06:32	46.6300	0.0214	54090.80	-1578.47 ▼	-2.84%
<u>Japanese Yen</u>	+0.05%	11/27-06:33	86.4900	0.0116	100328.40	-2875.93 ▼	-2.79%
<u>Mexican Pesos</u>	-0.53%	11/27-06:33	13.0830	0.0764	15176.28	-345.82 ▼	-2.23%
<u>Russian Ruble</u>	-1.10%	11/27-06:31	29.5729	0.0338	34304.56	-583.70 ▼	-1.67%
<u>S.African Rand</u>	-0.63%	11/27-06:33	7.5580	0.1323	8767.22	-190.79 ▼	-2.13%
<u>Swiss Franc</u>	-0.74%	11/27-06:33	1.0111	0.9891	1172.82	-24.24 ▼	-2.02%

As you can see, this AM, the world is rushing to the “safety” of the US dollar. Today’s downward price action in the metals likely includes, at least in part, the reversal of the carry trade at the behest of the margin clerks world wide. The carry trade has recently become alarmingly visible. On closer examination you may observe revealing movements in the fiat currencies.

China has retained its Yuan peg to the US \$, in spite of recent entreaties by President Obama during his visit to China. This means that little has changed to rectify the trade imbalances between China and the rest of the world. These likely were a prime cause of the first economic calamity two years ago. Also note that the Japanese Yen has strengthened along with the US\$. Today nothing good is happening in Japan, an economy already falling perilously close to the deflation that has plagued the island country for most of two decades. Finally, as is made plain by the table above, gold has declined by between 1.52% (Canada) and 2.67% (US) in every fiat currency - a 180 degree reversal of recent movement.

The questions are as follows:

- 1) is this Black Friday the beginning of a new strengthening of the US currency as margin clerks and fund managers move to eliminate the debt they have accumulated in US dollars?
- 2) Does this \$60 billion insolvency in Dubai set in motion a larger vaporization of asset values or will it remain limited to a sharp decline in equity markets world wide?
- 3) What about Islamic Finance – will this discontinuity impact the entire region?
- 4) As my friend and historian extraordinaire Graeme Irvine (www.LondonIrvinenReport.com) might say,

“There is simply no way of telling when or where the next Lehman might turn up.”

We have maintained for many weeks that the equity markets have become too frothy given the underlying economic fundamentals and the fiscal profligacy of Washington. The banking sector is still too undercapitalized and weak to lend. Unsustainable debt payments remain firmly in place in our children’s and grandchildren’s futures. Wake up America! We cannot pass this Black Legacy on.

May I suggest just a few of the names that I follow for your due diligence today:

- 1) Continue to accumulate discovery opportunities. Share prices may retreat and this shall be your opportunity to enter if you have not already done so.
- 2) Acquire producing companies such as GoldCorp, Ventana and Silver Wheaton on weakness.
- 3) For those of you that seek value opportunities at the Incubator level of Discovery look for entry points in companies such as Antioquia Gold (ANG TSXV), MegaWest Energy (MGWSF, at 19 cents it has appreciated 90% in the past few weeks with oil production, 129 BOD and steadily increasing, in the United States) Terraco Gold, and Senesco Technologies (SNT NYSE AMEX) for their promising new management team and their entry into the cancer clinic with the Mayo Clinic next year.
- 4) Be sure to own physical silver and gold if possible. While a retreat in price is welcome this AM these two metals, along with copper, will move much higher as the fiat money game is played out and the Chinese Quality of Life Cycle begins to dominate the bad news globally that we see this Black Friday 2009.

- 5) Always allocate only a very small percentage (5%?) of your overall wealth portfolio to Discovery- a level that you are comfortable with. This level can provide an “Eat Well, Sleep Well” investing strategy.

In the meantime be sure to make your feelings known about these abhorrent legacies that are developing (our gift?) to our future generations. Write or call to your elected representatives be they Canadian Conservatives, Liberals, Parti Quebecois, New Democrats or Democrats or Republicans here in the US. This is perhaps a most important action.

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