

**Today's Notes:**

1. **LABOUR DAY**
2. **ALL THAT GLISTERS**
3. **THE PRINCETON CLUB SEMINAR**

**1. LABOUR DAY**

Monday, September 7<sup>th</sup> will be a celebration of the North American labour movement. This holiday began in 1872 in the Canadian cities of Hamilton and Toronto, Ontario when the Trade Union Act was enshrined. Americans did not celebrate Labor Day until 1882 when US Labor leader Peter MacGuire emulated the Toronto celebration in New York. We have much to be thankful for to the labor movements of both countries over the past 137 years. In 1894 when a number of workers had been killed in the aftermath of the Pullman Strike President Taft and Congress made Labor Day a US national holiday. So for all of us Monday is a day to rest, recuperate and prepare for the upcoming fall and winter seasons, football in the US and hockey in Canada.

The pundits have joyfully declared this recession over. They are falling over themselves in sloppy congratulations. "The recession is over," they shout. Long live the recession! Technically, they are correct. This recession is probably over. MIT professor Paul Krugman is most unhappy though. Opining from his lofty tenured perch in academe through the left-of-center New York Times says,

*"It's hard to believe now, but not long ago economists were congratulating themselves over the success of their field. Those successes — or so they believed — were both theoretical and practical, leading to a golden era for the profession. On the theoretical side, they thought that they had resolved their internal disputes."<sup>1</sup>*

So as Canadians and Americans celebrate this Labour Day 2009 (Canada's 137<sup>th</sup>) in Toronto, Chicago, Saskatoon and San Francisco, the economic community is breathing a sigh of relief.

But the troubling issue, recovery or not, is that 6.7 million Americans and 486,000 Canadian workers (Canadians unemployed from peak employment October 2008) are out of jobs. It is troubling that many families cannot buy the school materials necessary for the school year, that families are still being displaced from homes and that productive Americans and Canadian workers are sitting at home wondering. The barbecues will be subdued in Muskoka, Ontario and Santa Barbara, California on this 137<sup>th</sup> Labour Day.

How can anyone crow that the recession is over? We are staring at the apocalypse of a jobless recovery in North America. Thousands of workers have simply stopped looking.

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<sup>1</sup> *How Did Economists Get It So Wrong? Mistaking Beauty for Truth*, Paul Krugman, New York Times, September 6, 2009.

The discouraged worker is omnipotent. Politics shall indeed intervene. An economy cannot be happy and productive with so many discouraged workers.

The North American consumer's absence ripples through our economies. This AM we shall watch the US Department of Labor's report on the average work week. Hiring will not begin till the average work week (measured in hours) increases. Even then real wages are declining. The most disadvantaged willing workers are young people and college graduates. Unemployment amongst young people in Toronto is soaring. The Toronto Star reports that jobs at Tim Horton's are much sought after. Statistics Canada reports,

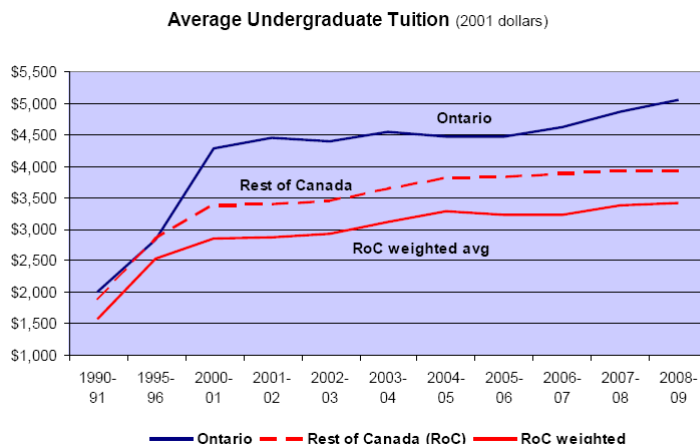
***“Employment was down 10.9% (-152,000) for students aged 15 to 24 in July 2009 compared with 12 months earlier, the fastest year-over-year rate of decline for a month of July since 1982.***

***July's unemployment rate for students climbed to 20.9%, a 7.1 point increase from July 2008. This was the highest July unemployment rate for these students since comparable data became available in 1977.”***

Even in China, which produces 6 million college graduates each year, half of the 2008 graduates are still looking for work. The Youth of our world, especially the educated youth, are the leaders of tomorrow and the engines of productivity. They also vote. There is nothing like a disaffected populace to call for political change. We have seen that recently in Japan and we will likely see it in China in the future. The question is the nature of the political shifts in Canada and the US in the next decade predicated on slower growth, stagnant employment and higher inflation as we adjust to Paul McCulley's "New Normal."

Structural, longer term unemployment is now entrenched in Canada and the US. This impacts younger people directly. It is not about the crowing of economic observers on whether or not the recession is over. That matters little, a short run phenomenon. Longer term, how will we cope? What kinds of jobs will be available? What global competition?

Bloomberg notes this AM that Harvard increased its tuition by 68% and Princeton by 43% over the past ten years. Johns Hopkins now charges \$39,150 for an entering freshman – just tuition, not room and board. The University of Oregon has seen tremendous price inflation in the past three decades (see below). It is a relative bargain. In Canada average tuitions have increased from C\$2000 in 1990 to over C\$5000 in 2008. In addition the percent of Canadian government assistance to tuition fell from 80% to 50%.



What unemployed US family can afford even \$10,000 per year for a college education?

## Tuition and fees soar

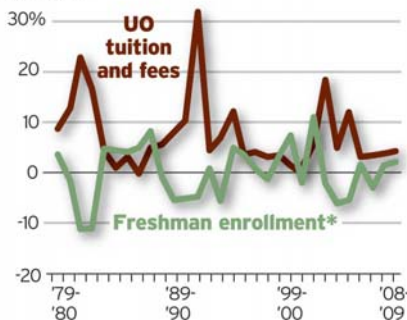
### Oregon's undergrad tuition and fees

Tuition grew more than three times faster than the U.S. Consumer Price Index, a measure of inflation. The index rose 230 percent, while tuition at the University of Oregon went up 716 percent.



### Cost impact on enrollment

Fewer Oregon high school graduates tend to enroll in the state's public universities when tuition goes up significantly.



\*Enrollment of Oregon high school graduates

Source: Oregon University System

MICHAEL MODE/THE OREGONIAN

*“Trees cannot grow to the sky ... But apparently there is no stopping college tuition.”  
Anon, 2009*

Education is the only way out of a structurally stagnating economy, though it may require a generation or more. Perhaps the current US administration and Congress should be concentrating on educational rather than medical costs. Krugman’s solution is more government spending, more Keynesian solutions. Why not make a university education free? This is a simplistic left wing argument. Krugman believes that the problem has an immediate government solution. Simply apportion more of the economy to the government.

This Labour Day perhaps we can reflect as two nations tied so closely by geography, culture, economics and history. Government everywhere is taking on a much larger part of our lives. That is the “new normal.” The world is moving rapidly left this Labour Day. a drift that would make American Labor Leader Peter MacGuire content.

In the meantime seek those discoveries that are potential “game changers” in your fields of discovery interest. Remember to diversify widely because not all discoveries work out. Game Changing? See the following Morning Note.

## 2. GOLD AND OIL

Wow! Gold and silver soared yesterday. Gold gained almost 14%. This unlikely golden surge occurred despite fundamentals. There is no official inflation. In fact, Treasury bond yields are falling. We have made the repeated claim that stiff deflationary headwinds are blowing. From time to time, yet continually, dollar and yen strength shows up. During the past two days we have seen the largest gain in gold since March. We must conclude that gold is breaking out of its most recent channel. We are aware that the IMF, in addition to selling 400 tonnes of gold (which it does not own), has created \$282 billion of currency in the form of Special Drawing Rights. These, like the dollar, are backed by nothing except faith in world government. This IMF action was completed quietly and without a vote of the IMF members. Flight to safety anyone?



Silver is once again an interesting discovery investment. It is now outperforming gold significantly (see Gold Silver ratio below). China has recently opened the doors for Chinese citizens to buy silver in amounts up to 5 KG. China's Central television commented,

*“China has introduced its first ever investment opportunity for silver bullion. The bars are available in 500g, 1kg, 2kg and 5kg with purity of 99.9%. Figures show that gold was fifty times more expensive than silver in 2007, but now that figure has reached over seventy times. Analysts say that silver has been undervalued in recent years. They add that the metal is the right investment for individual investors and could be a good way to cash in.”*

Lest we forget, China was on a silver currency standard prior to being yanked off by President Roosevelt in 1934. Sound familiar? I do believe that the shoe is on the other foot at present. China has apparently moved to allow its state companies to repudiate commodity futures contracts. Flight to safety anyone?

Indeed just as silver has begun to outperform its stronger cousin gold so too will natural gas eventually right itself with respect to oil. Chinese affection for silver as a currency is deep rooted. Silver will be an excellent place to find discovery alternatives. The following graph of the gold to silver ratio tells the story. Silver is trading over \$16 per ounce this AM. We are confident that it will see \$25 per ounce within the next year or so.



In view of this interesting dynamic you have to consider Endeavour Silver, Silver Wheaton, Coeur, Silver Standard, Alexco Resource Corp., and Revett Minerals (now mining silver and copper at Troy). Aura Silver, a long time favorite, has also reported a significant silver discovery hole.

On the gold front, Goldcorp roared yesterday. I like Galway for its coal and gold exploration potential in Colombia. I also like Ventana and Antioquia at different levels of discovery exploration in Colombia. Please have a look. In Canada one has to consider that Houston Lake and Clifton Star. They are both well positioned geopolitically and geologically for the gold breakout. Other sleepers include Please review. Use the Ten Point grid for your discovery analysis.



### 3. PRINCETON CLUB SEMINAR SEPTEMBER 10<sup>TH</sup> 4:30 PM

***PLEASE JOIN US !!!***

### ***QUATERRA RESOURCES***

***Dr. Michael Berry will open with a discussion “Where Are We Headed in the Economy?” followed by Dr. Thomas Patton, CEO, Quaterra Resources “The Bright Future of Quaterra.”  
 Quaterra’s silver exposure in Mexico is one part of his discussion***

***Thursday, September 10, 2009  
 4:30 PM to 6:30 PM***

**Cocktails 4:30 PM**

**Presentation promptly at 5:15 PM**

**Princeton Club  
15 West 43rd St.  
New York, NY**

**RSVP to [info@discoveryinvesting.com](mailto:info@discoveryinvesting.com)**

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