

## Today's Notes:

1. Gold Glisters: Morphs toward Money
2. The CIC Speaks Again

## 1. GOLD: MORPHING TO MONEY

*“Gold is silently, inexorably, psychologically - morphing to money  
while  
the reserve currency dollar slouches toward Bethlehem to be reborn”*

The IMF has decided to sell the remainder of its planned cache of 403.3 tonnes of gold. You will remember that last year (November 3<sup>rd</sup>) India, then Sri Lanka and finally Mauritius bought 221 tonnes of gold before it even hit the market. India's November purchase of 8% of world annual production made her a top ten holder of gold at 6.4% of reserves. For India this amounted to a 56% increase in gold held by the Central bank of India to 558 tonnes (metric tons).

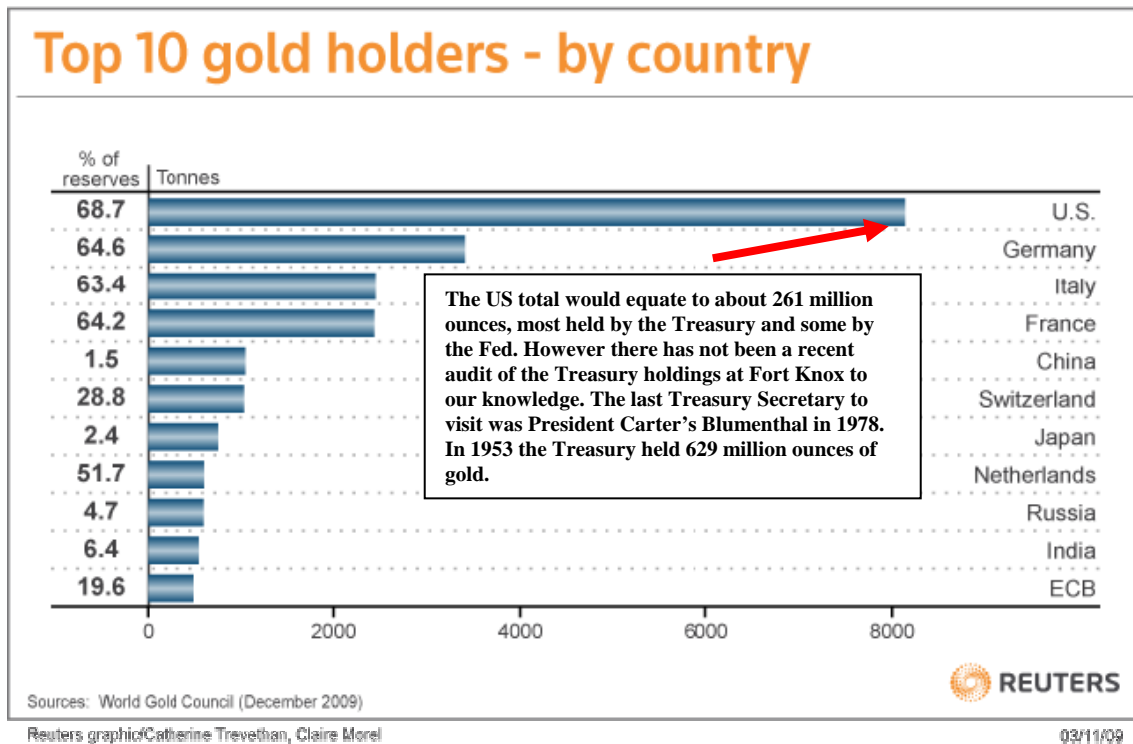
The International Monetary Fund announced this AM that it planned to sell the remaining 191.3 tonnes of gold into the open market a remnant of the original 403.3 tonne allocation. The IMF will still control over 2,800 tonnes of gold. But the irony is that here is the world's proxy for a central bank for the world's poorer countries converting real money into fiat is value destroying. It must decline in value in the long run. This sale is to make loans to poor countries that will very likely never pay back, in full, these loans. Only Gordon Brown's sale of Britain's gold, which has been quietly swept under Britain's rug, is more deleterious. The sale of the IMF gold to India netted ~\$7.8 billion – a paltry sum when compared to the trillion dollar deficits and potential for hundred billion Euro and dollar sovereign debt defaults that now seem to be threatening globally with some regularity.

The IMF announced that it will sell these tonnes on the open market. This had the knee jerk effect of slamming precious metals prices, oil and the commodity currencies. It's all relative of course so now the dollar defenders in Washington, as well as the talking heads on CNBC, can crow about a stronger dollar. Please do not be fooled by such short term speculation-fed manipulation. If gold declines this will be a marvelous buying opportunity.

There is likely to be even more pressure on gold however. Little noted is the recent Central Bank Gold Agreement in which the IMF has agreed to sell into the market up to 400 tonnes each year to a maximum of 2,000 tonnes in the next 5 years. These will be sold to central banks **as well as on the open market.**

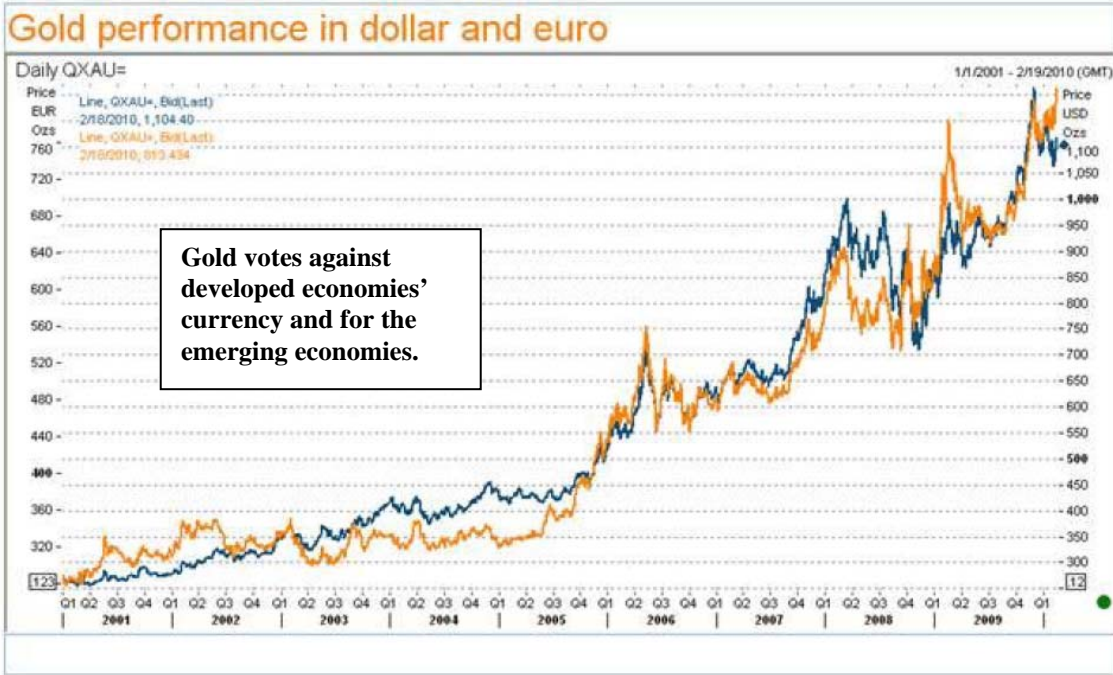
Please realize one important fact. The IMF does not own a single ounce of this gold. All the IMF gold emanates from contributions from IMF member countries. In addition the IMF cannot sell its gold without the approval of the US – including the Congress and the Administration. So while the proceeds from such sales are dwarfed by the trillion \$ liabilities that developed nations are now facing, a few billion dollars from selling IMF gold

will have practically no effect on world poverty. The value of these funds will be swallowed up by the great inflation that the world will ultimately face.

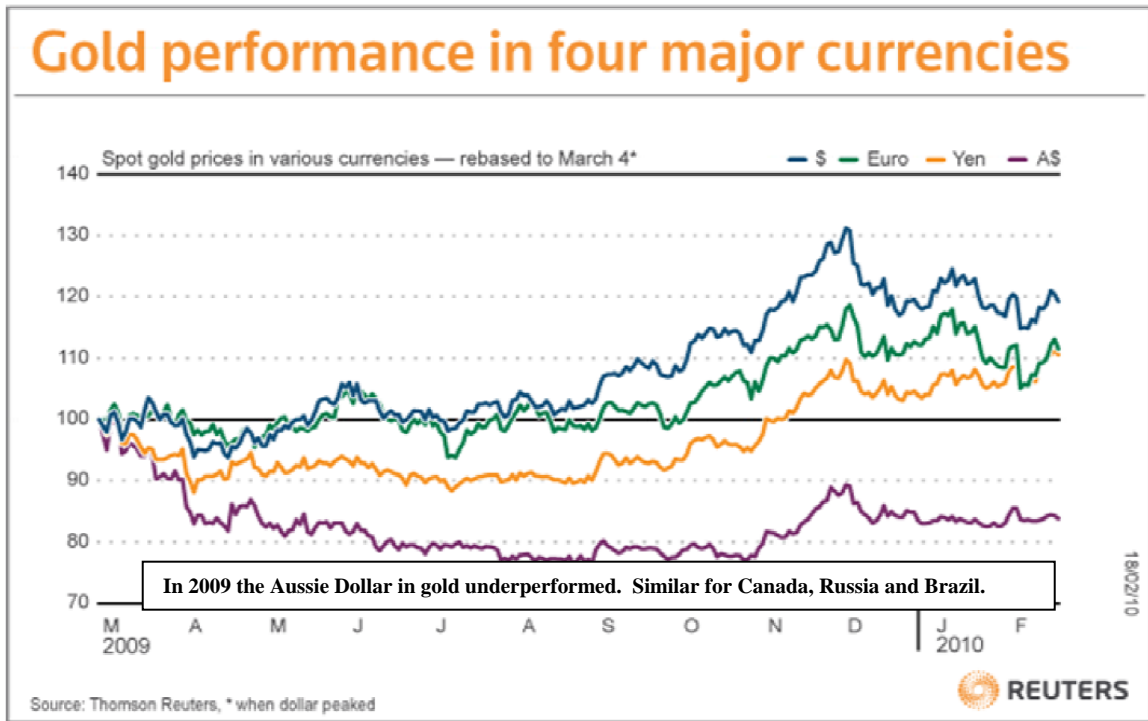


The emerging economies see gold in quite a different light. China, the world's biggest gold producer, has increased reserves of the metal by 76 % to 1,054 tons since 2003 and has the fifth-biggest holdings by country, Hu Xiaolian, head of the State Administration of Foreign Exchange, said in April 2009. However irrespective of China's official gold holdings estimated to be less than 2% of official reserves today, during the past 6 years Chinese citizens bought almost over 1,600 tonnes of gold, vastly outspending the Chinese government for the precious metal. In the meantime Chinese government buying of US Treasuries has declined substantially from half the new Treasury issuance in 2006 to less than 5% in 2009. Similarly China is withdrawing from the US Agency debt market. It would seem as if US interest rates must increase – please be prepared. Do not be cowed into the great IMF scheme to flush out the gold market. It is short term for certain and shall provide, at worst, a tremendous buying opportunity. At best the inexorable move in people's minds and hearts to the multi-millennial sanctity of gold will sweep away all deleterious effects of the IMF actions.

Even this AM gold is trading only off \$1.80 at \$1119.30 as I write. Ultimate "winning" economies and currencies as gold discoveries and production continues unabated – Australia, Canada, Mexico, Colombia, Brazil and Guyana. These countries have significant gold in the ground, mining infrastructure, capable labour, decent legal structure and less restrictive environmental policies. Their currencies should be buoyed by these assets. Gold has been shouting, in Dollar and Euros for the past decade that this morphing of fiat for specie currency is underway – take a look at the value of gold in Dollars and Euros.



By the same token Aussie, Canadian, Brazilian and Russian currencies have outperformed gold in the past year setting the stage for the emerging markets, mentioned above, to now move to the fore.



## **2. THE CHINESE INVESTMENT CORP SPEAKS AGAIN (CHRISTOPHER A BERRY MBA)**

In the wake of our most recent Morning Note concerning the CIC and its investments in U.S. and Canadian equities, an article in the Financial Times this morning reports that the CIC is at it again, though this time investing in the secondary market for private equity (PE) deals.

The secondary market for PE deals works like the secondary market for almost any other instrument in that positions in venture capital and buyout funds are traded by investors. It is estimated that the secondary market here is about US \$25 billion in size in 2010 after having done between US \$12 to \$15 billion in deals in 2009.

The CIC will invest US \$1.5 billion with three private equity firms (Lexington Partners, Goldman Sachs, and Pantheon Ventures) equally in custom accounts. This is thought to be the biggest single injection into the secondary market and will allow CIC to quickly build a mature portfolio of investments, further diversifying its investment portfolio. Clearly the CIC is using its clout to demand better terms from these private equity groups such as lower fees and a transfer of knowledge of how the secondary market works. This last guarantee the Chinese secured is significant in that they are essentially paying for access to this knowledge immediately rather than learning organically. It's also shrewd in that the Chinese see a market on the rebound, which they believe allows them to demand their own special terms from each of the shops they have invested with. It's hard to argue with their line of reasoning here.

This is yet another example of the widening net the Chinese are casting in their effort to become major players across all investment classes, including sovereign debt, equities, or the private equity secondary market.

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