

Today's Notes:

1. Mostly Bad News
2. Lithium Ideas

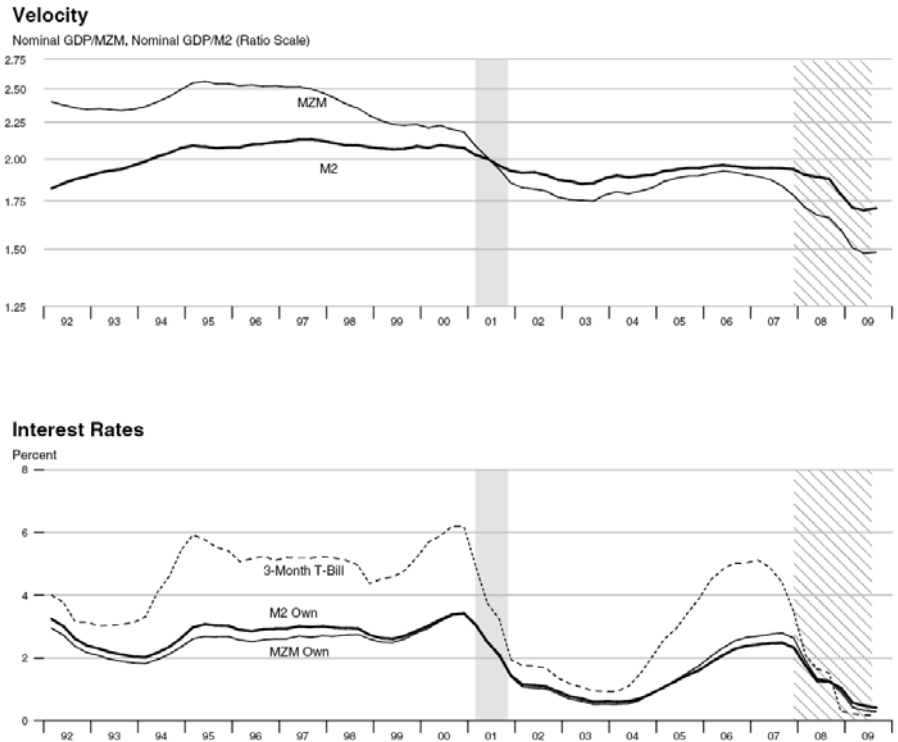
1. BAD NEWS

Last Monday we noted that the Canadian economic situation is so much more positive than here in the US. We stated that on Friday (January 8th) U.S. employment data for December would be forthcoming. There was, one week ago, much optimism that these data would show a clear recovery in the economy. We opined in that Morning Note,

“This Friday we shall see December’s U.S. unemployment figures. Wall Street (and Washington) is uncharacteristically optimistic about a positive outcome. This would have a very substantial impact in the capital markets.”

It was not to be. The employment numbers were disappointing when they came to market Friday morning. 661,000 Americans lost jobs in December. The US Bureau of Labor Standards (BLS) announced that the U3 unemployment rate was stuck at 10% and the U6 Underemployment rate was higher at 17.3%. However the BLS ignored those no longer in the job market and so the real U3 number is now 10.4% according to Ambrose Evans Pritchard¹. The U6 number is dangerously close to 1 in 5 (20%). If 1 out of every 5 workers in the US is either unemployed or underemployed we are in very deep trouble. Unemployment is a lagging indicator of recessions. The most troubling issue however is the fact that jobs are still being lost. In addition we have not yet observed a strong uptick in MZM money velocity or the M1 Multiplier. Both are a quarter century lows.

¹ America Slides Deeper in Depression as Wall Street Reveals,
http://www.telegraph.co.uk/finance/comment/ambroseevans_pritchard/6962632/America-slides-deeper-into-depression-as-Wall-Street-reveals.html



Now the press is starting to become involved. This again is a major cause of worry because it is a sign that whatever Washington is doing to turn the economy, may not be working. Frank Rich of the New York Times, (*The Other Plot To Wreck America*), excoriates Wall Street and their 2008 paramours at the Federal Reserve for the bailout of Goldman (and others) at \$1.00 on the dollar (100%). The New York Fed, under the sway of current Treasury Secretary Geithner and then Treasury Chief Henry Paulson made “Goldman” parachutes for a number of banks and stuck a knife in the heart of a number of others. Such activities are now beginning to look like giant inside deals, the seamy side of Wall Street. Former Citigroup CEO Reed countered Sandy Weill’s mea culpa’s by suggesting that Bob Rubin, who escaped unharmed, placed Citi in the line of fire with entry into the CDS market. We think that Treasury Secretary Geithner will have to answer for some of these issues.

And finally the employment story comes full circle. Roger Lowenstein suggests in Sunday’s New York Times article “*Walk Away from your Mortgage*” that there may be some rational to mom and pop walking away from the mortgage. After all he notes the banks and hedge funds have done something similar. He quotes Professor Brent White of the University of Arizona. Perhaps with 25% of all mortgages now under water (10% in default with 10.7 million American homes in trouble) lenders would be more eager to re negotiate terms of these loans if homeowners simply “walked.” Long gone are the days of the postwar era when owning a home free and clear, along with the party to burn the mortgage documents, invoked a celebration and pride in ownership.

With unemployment rates stagnant, at best, there are two additional lags in the system yet to be felt. The unemployed will try for a year or so to hold onto their homes. Once unemployment benefits run out or the bank accounts (whichever comes first), many more Americans will have little choice but to seek bankruptcy protection or simply walk away from their mortgages. Second, the option arm resets are yet to be felt. In short we may well be set up for a double dip based on last Friday's unemployment numbers for December.

Under these circumstances the US stock market is ebullient. Talking heads on CNBC are crowing for DOW 14,000 this AM. We think there is more than a whiff of deflation in the air. We cannot reconcile copper's recent optimism nor that of silver. China is either a large credit bubble or is successfully decoupling. Only Jim Rogers believes the latter. According to a very good source, who sent me data from China yesterday, there appears to be little evidence that China is moving quickly enough towards a consumer economy. Asian consumerism is key to global decoupling and rebalancing. It will happen in due course – but it will take time.

So if you have benefited from this run-up in commodities and commodity shares from early last March, perhaps, just perhaps, you should take some profit out of this market and wait for the real recovery. I point this out to suggest that at some point you must take profits. People have criticized me for not setting more concrete sell disciplines. That I leave to the individual. However, the markets do seem to be becoming quite frothy at this time. If for example you have a double in a particular name in your portfolio perhaps you should consider reclaiming some or all of your original investment.

2. THE NEW YEAR, LITHIUM IDEAS

Even with the looming problems discussed above, I still like discovery opportunities because they are inherently cheap. I have become active in the lithium market. I have reduced a position in Western Lithium (WLC TSXV) after a significant run-up in WLC shares last week.

Solares Lithium Inc. (LIT TSXV) is a new and interesting incubator company with very large lithium properties in Chile.



The shares are cheap at C\$.70 and I have currently established a toehold position in LIT.

After the *Vancouver Sun*, *Wall Street Journal* and *Globe and Mail* published articles on lithium last week, and after the Canadian company Magna bought into a private lithium company (see *Globe and Mail*, *Magna Buys Stake in Small Lithium Miner*, January 7 2009) several of these lithium discovery stocks have soared. Solares Lithium is still trading under the radar screen, in my opinion. Please do your own due diligence on Solares Lithium.

I think we need to be very selective in the coming few months. The lithium space may prove to be an excellent, value-creating discovery niche. I recently read a powerful article on the MIT web site describing how new lithium technology might double or triple the capacity of lithium ion batteries. <http://www.technologyreview.com/energy/24288/?a=f>

This discovery technology could have a very significant impact on the lithium market by substantially reducing the weight of the batteries. The research scientist, Jeff Dahn, is a Canadian Physics professor at Dalhousie University in Halifax, Nova Scotia. Canadian research to fore once again!

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