

Today's Notes:

1. **The Great Convergence**
2. **My Thursday Afternoon Presentation**

1. The Great Convergence

Here we are in the New Year. It is also a year of a new dynamic. You can see it almost everywhere including, most recently, Egypt, Tunisia, Lebanon and the Ivory Coast. China again is newly flexing her muscles and defining a new relationship with the West.

It is a world of **convergence of incomes and divergence of growth rates** between developing and developed countries. This year (last week) we served as Chairman of the first Cambridge House/Commerce Resources Critical Metals Symposium. This was a most interesting event for two days in Vancouver. The room was full both days of the symposium. I think this might have been the first time Japanese, Chinese, European, Canadian and American views on the **Rare Earth** conundrum were presented as well as those on a number of metals outside the 15 or so rare earth elements.

Many people ask why the new categorization of metals as critical metals. In other words what event or events have made these metals seem critical?

The National Research Council (NRC) produced an in-depth report on minerals critical to the U.S. economy. They said,

"... most critical minerals are both essential in use (difficult to substitute for) and prone to supply restrictions."

The NRC report is based on 6 availability criteria used to rank minerals for criticality (geological, technical, environmental and social, political, and economic). Rare earth elements (REEs) specifically were classified "critical," assessed at a high supply risk and the possibility of severe impacts if supplies were restricted.

Critical metals such as REEs involve far more than the development of the REE mineral deposits. There is associated with all these metals a chain of events that transforms them from their in-the-ground status through mining, extraction, separation, fabrication and manufacturing to useful components in today's vast array of products such as solar cells at high temperature magnets. Some call this a Value Chain; Some call It a Supply or Production Chain.

While we have typically focused on the exploration and development of metals in the past decade in these Morning Notes, we now realize there's something more at stake here. For it is these "value chains," these "supply chains" with their associated sets of intellectual property that have escaped the west and are now being replicated and advanced in places like China and other emerging countries.

At present the world is focusing on the 15 to 17 Rare Earth elements whose supply shortfall across the entire supply chain has caused concern for our legislators in Washington.

There are a number of pieces of legislation in both the US House and the Senate to attempt to rectify the situation that currently exists with respect to rare earth elements. The Congress cannot change this because the basic problem is in the short run. In the long run jobs are created when new industries replace old industries. When the horseless carriage came onto the scene many industries were obsoleted while new industries were created. Now that nanotechnology and its vast intellectual property development is on the scene, metals heretofore considered useless, to some degree the rare earth elements, have found many new applications. In view of the desired move to alternative energy sources using wind and solar energy and the electrification of the economy using new battery technologies, metals such as **lithium**, rare earth's, gallium, indium, uranium and many more are now much more in demand for new applications. In addition their value chains are required as well. Here's an example of a value chain in the ion battery space.

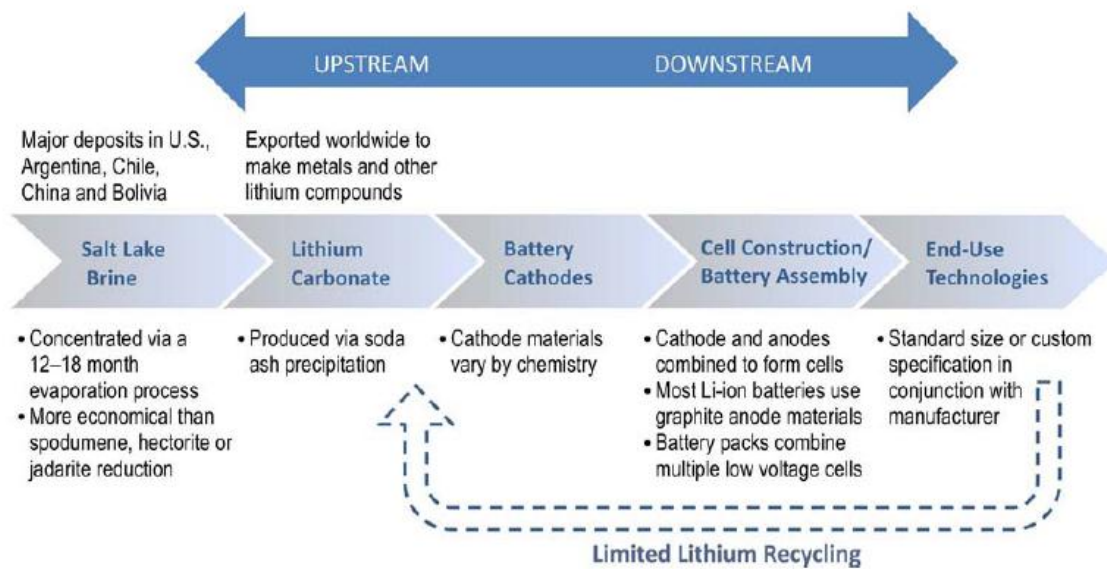


Figure 2-2. Supply chain for lithium-ion batteries

As you can see there are many different stages of development each with its own level of risk and return and each with its own level of profitability. We follow that with an example of rare earth high temperature magnet creation. Once again you can see the many steps of processing necessary in this value chain. At present the most complicated fabrication and processing steps are available only in China, Korea and Japan and not in the United States.

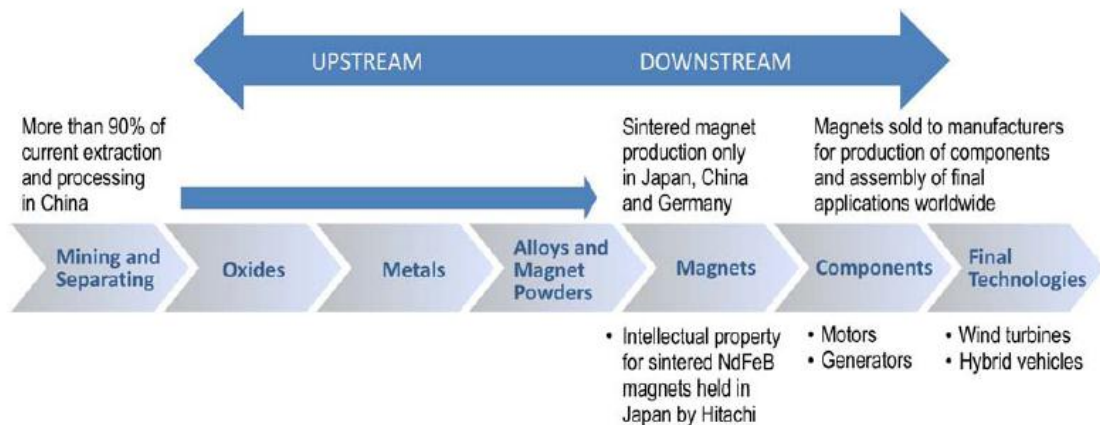


Figure 2-1. Supply chain for rare earth element PM applications

We want to emphasize that the United States is 100% dependent **upon** imports for 19 different minerals including the rare earths, graphite, indium and gallium. In addition the United States sold down its strategic mineral stockpile beginning about 1994 when it seemed like the world would be at peace forever. Obviously two wars later and with the Middle East heating up and China building her military through the use of many of these minerals, nothing much has changed from a strategic point of view except that we now have minimal or empty stockpiles of strategic metals and we have allowed the IP development cycle slip through our fingers.

For the first time during my keynote presentation at the Cambridge House symposium last week I presented what many think is a radical new idea but what has been developing for quite some time. It's about the convergence of income and divergence of growth in today's world. I am not the first to pick up on this fact there is a book written by a Prof. at the University of California called, **In the Grip of The Great Convergence**. On January the 4th the Financial Times highlighted the issue.

The great **convergence** is defined by the beginning of a convergence of per capita incomes across the world. What it means is that the average person in China and India and other emerging countries will see their per capita income and quality of life increase in the next 20 to 30 years. At the same time those in the West that have lived with extraordinarily high levels of income and quality of life, (some have suggested that we live today better than the kings and queens lived in history), that the quality of life in the West will decline or converge to some lower level, perhaps a mean historical value.

While there is a convergence of incomes there is a divergence of growth rates. From 1500 to 1820 China and India made up almost 50% of the world's GDP. Between 1820 and 1950 the share of GDP of these countries diverged dramatically to about 10% of world GDP while the West's share of global GDP, primarily Western Europe, increased dramatically as did the US.

Beginning in 1980, according to the theory expounded in the book and historical fact, the growth rate in China began to rise. This is roughly in line with the liberalization of the Chinese economy by Deng Xiaoping. Today we are faced with a situation in which growth in the West, including the US and Europe, is stagnating, unemployment remains stubbornly above 9% or more and everyone is

beginning to feel the pinch of a quality of life that is declining due to inflation. This then is the notion of being in ***the grip of a great convergence***.

Two or three years ago the notion was that China was decoupling from the rest of the world. With a credit crisis of 2008 most economists said this was not the case. Indeed China seemed to survive the credit crisis in a better shape than the West. We have always believed that China and the emerging world were in fact decoupling through this great convergence of incomes and regression to the mean which is an established historical fact. The difference this time is instead of taking several hundred years it is occurring in a few short decades. There will be failures in China and in the emerging world no doubt. There are many problems with the build out China's financial system, the lack of democracy, the lack of transparency and the state run governments in these countries. Nevertheless, the quality of life super cycle, the great convergence of incomes, the great divergence of growth rates is well underway and cannot be reversed in the short run.

What does this have to do with natural resources and in particular metals and mining? It is one of the issues that makes new natural resource extractive policies and supply chain development critical to all countries. In the next few decades there will be problems of supply in the entire natural resource and commodity sector as a result of this divergence / convergence. I believe we are seeing it today with the pricing of the metal copper, perhaps the most fundamental quality of life metal.

I will include for you tomorrow my presentation at the Cambridge House symposium. It is the first try at teaching what is really happening in the world. The model needs work and verification; nevertheless think about it because I believe it indicates where you should be looking in the discovery investing space. As per capita incomes converge and quality of lifestyles increase for the majority of humanity and decrease somewhat in West, all sorts of discovery is going to be required. The very fact that supply and value chains have escaped our view here in the United States and to a lesser degree in Canada gives witness to what is happening in the world.

Here are a couple of recent events outside the scope of critical minerals. In the Ivory Coast the World's supply of sustainable cocoa could run out by 2014. Political unrest in the Ivory Coast, where 40 % of the world's cocoa beans are grown, has 'significantly' depleted the number of certified fair trade cocoa farmers.

In Egypt and Tunisia the new era of global food revolutions has been ushered in. The Telegraph in London today said,

“Political risk has returned with a vengeance. The first food revolutions of our Malthusian era have exposed the weak grip of authoritarian regimes in poor countries that import grain, whether in North Africa today or parts of Asia tomorrow.”

2. Please plan to attend my internet-based presentation next Thursday February 3 at 6 PM. I expect over 2000 attendees. I will be speaking on the topic:

“The Discovery of Critical Metals Stocks for Our New Electric World”

LINK: www.retailinvestorconferences.com

You can even ask me questions!

Dr. Michael A. Berry of Discovery Investing to Present Live at RetailInvestorConferences.com on February 03, 2011 Company invites investors and analysts to attend new interactive virtual conference

Whippany, New Jersey / January 28, 2011 –

DiscoverInvesting.com today announced that Dr. Michael A. Berry will present, "Discovery of Critical Metals Stocks, for Our New Electric World" at RetailInvestorConferences.com.

DATE: February 03, 2011

TIME: 6:00 PM ET

LINK: www.retailinvestorconferences.com

This will be a live, interactive online event where investors are invited to ask Dr. Berry questions in real-time both in the presentation hall as well as in his "virtual trade booth." If attendees are not able to join the event live, an archive will be available for 90 days. It is recommended that investors pre-register to save time and receive event updates.

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