

Today's Notes:

1. **The Century's New Cold War (Submitted by Christopher Berry)**
2. **The New Decade**

1. THE CENTURY'S NEW COLD WAR

Despite your thoughts on the recent events in Copenhagen, one thing is clear: "clean," "alternative" or "green" energy is here to stay. It's now up to Government and the private sector to find a balance between the global carbon-based energy supply/demand (where demand is increasing) and sustainable clean energy supply/demand (where there seems to be plenty of demand, but inadequate supply for a host of reasons, mainly the high cost). As discovery investors, concerned with cementing our legacies for our families, we should be asking how to invest in and profit from this emerging sector – whether it be with wind, solar, nuclear, biomass, or other emerging alternative energy technologies.

I'd like to advance an idea here. The world is in the beginning stages of a new "Cold War." If scientists, who warn us of impending climate doom, are proven correct we're on the verge of another type of mutually assured destruction. The new Cold War I'm referring to revolves around the race to innovate and own energy technologies that can provide safe, clean, and most importantly cheap energy helping increase quality of life of the global populace. It is from these technologies that we can help foment a "green" revolution, strive for a better quality of life and, perhaps, avoid a MAD world.

In the December 21st – 28th issue of *The New Yorker*, there is an article which touches on this theme titled "***Green Giant: Beijing's Crash Program For Clean Energy.***"

http://www.newyorker.com/reporting/2009/12/21/091221fa_fact_osnos.

The article is essentially a wake up call for the United States and the developed economies regarding what the Chinese are doing to develop a cleaner energy economy. The article states that carbon-based sources of energy are necessary and are here to stay, but the Chinese realize they cannot continue on their current path of economic development without making some major energy changes to the way they power and grow the economy.

I include 5 facts from the article:

1. China's "Sputnik moment" came in 1986 when Deng Xiaoping ordered massive investment in China's scientific establishment.
2. By 2001, China was adding 200 cars per day to its roads.
3. In 2003, China had a small solar industry. By 2008, it was manufacturing more solar cells than anyone else globally and winning customers from around the world.

4. R&D expenditures have grown faster in China than in any big country – roughly 20% per year for the past two decades (That’s about \$70 billion per year).

5. Investment in energy research grew **50-fold** in China between 1991 and 2005.

Examine this chart of wind turbine energy creation in China in 2005.

Province	Number of Turbines	Megawatt Capacity
Xinjiang	297	181.5
Inner Mongolia	260	165.6
Guangdong	272	140.2
Liaoning	203	128.0
Ningxia	133	112.7
Jilin	143	109.3
Hebei	143	108.2
Shandong	103	84.5
Fujian	79	59.8
Heilongjiang	70	57.1
Gansu	74	52.0
Zhejiang	69	34.0
Shanghai	18	24.5
Hainan	19	9.0
Total China	1,883	1,266.2

From this base China had doubled its wind power in 2006, 2007, and again in 2008. This is breathtaking growth and must be matched in the West and the developed world.

By the way China is now building 4 nuclear reactors with 22 more planned. China will lead the world within a generation in nuclear energy technology. The US will lag far behind.

In the United States, we’re responding to the challenge with a program known as ARPA-E (**Advanced Research Projects Agency-Energy**) which is a United States government agency set up to promote and fund research and development of advanced energy technologies. Begun in 2007, it was funded with \$400 million as part of the 2009 economic stimulus measures. The goal of ARPA-E is to solicit ideas from private industry, universities, and labs in the United States that can drive innovation and can become commercially viable technologies. No existing technologies will be improved upon; this is only for new and innovative technologies that focus on improving energy efficiency or reducing greenhouse gasses, for example.¹ More information can be found on the U.S. Department of Energy’s (DOE) Energy Efficiency homepage: <http://www.eere.energy.gov/>

This Morning Note is a brief summation of what’s happening in the U.S. regarding clean energy development. While it’s comforting to see so much focus being placed on this emerging sector of the economy, I’m left wondering if the U.S. Government is doing enough. I really see this race to be “green” in national security terms. Whoever develops the

¹ <http://en.wikipedia.org/wiki/ARPA-E>

technologies that will drive the global economy forward to a cheaper, cleaner future will **own** those technologies, keeping other governments at their behest.

Clearly, I'm not the only one who sees this race in national security terms. Sen. Schumer (Democrat-NY) has urged the Obama administration to block stimulus funds for a wind farm to be built in Texas with turbines made entirely in China.² Not only are we talking about national security, but we're also talking about American jobs – another potential benefit of leading the race in alternative energy technology. This is why I refer to this dynamic as this century's new Cold War. Many issues are at stake – national security, job creation, quality of life – the list goes on.

It's clear that there are many entrepreneurial and innovative technologies being developed in the United States and other parts of the world, but the scale and scope of what is happening in China is something we must recognize. As individual discovery investors, we owe it to ourselves and our families to gain an understanding of these issues and position our portfolios accordingly. With 2010 upon us, this is a perfect opportunity to do so.

If you have any comments or suggestions on this article, email me at info@discoveryinvesting.com. I welcome the feedback and will publish follow up articles on previous posts based on your feedback.

2. THE NEW YEAR, NEW DECADE

The situation in Canada is tied directly to what happens in the United States. Everyone knows this fact and many Canadians fear it. But this AM the Toronto Globe and Mail opines that the Canadian economy is beginning to look quite good. We also see, this AM, a sense of optimism pervading American investors. The stock index futures are rising. The DOW futures are up 65 points as I write. Pundits suggest that if the stock market is positive in the month of January a good year follows. Many academics used to study a phenomenon called the January effect in which small caps seemed to outperform in the beginning of the year. Some thought this was due to year end tax loss selling. We shall see how the discovery stock sell off in December reverts this month.

But this AM I write about a different behavioural phenomenon. It is no longer about fear and greed but now hope and greed. Everyone wants this horrible period in our economic history to end. Thus any bit of good news is hailed as the beginning of the end.

This Friday we shall see December's U.S. unemployment figures. Wall Street (and Washington) is uncharacteristically optimistic about a positive outcome (jobs are added finally after 24 months of job losses). This would have a very substantial impact in the capital markets. There is optimism in the currency and commodity markets this AM. Oil is trading 2.5% higher at \$81+. Global oil markets are evidently discounting higher growth around the world. Gold is reacting positively as well, trading up 2% at \$1127. The U.S. dollar is declining across the board (except of course with respect to the Chinese Yuan) in this first trading day of the new decade. This is the only way that the U.S. economy can

² <http://schumer.senate.gov/record.cfm?id=319695&>

survive, isn't it? Inflating away the mountains of debt that we have accumulated and we continue to build seems to be one sure way to minimize the damage. That means the U.S. dollar must fall relative to its fiat peers. Is this good news? Yes, definitely. Despite the official Treasury position of a strong dollar held by Mr. Geithner and even Fed Chief Dr. Bernanke everyone knows that the US currency must succumb to the weight of \$1.4 trillion in debt.

Currency	<u>Chg%</u> <u>X=1\$USD</u>	NY Time	X= 1\$USD	X\$USD =1	Gold Price/oz	Gold Chg	Gold Chg%
<u>US Dollar</u>	--	01/04-09:29	--	--	1120.70	+24.20 ▲	+2.21%
<u>Australian Dollar</u>	+1.23%	01/04-09:20	1.1008	0.9085	1232.95	+10.90 ▲	+0.89%
<u>Brazilian Real</u>	+0.69%	01/04-09:28	1.7230	0.5804	1929.93	+27.50 ▲	+1.45%
<u>British Pound</u>	+0.08%	01/04-09:28	0.6178	1.6188	691.94	+14.03 ▲	+2.07%
<u>Canadian Dollar</u>	+1.19%	01/04-09:29	1.0396	0.9620	1164.40	+10.83 ▲	+0.94%
<u>Chinese Yuan</u>	-0.02%	01/04-06:30	6.8245	0.1465	7647.53	+166.01 ▲	+2.22%
<u>Euro</u>	+0.79%	01/04-09:28	0.6922	1.4448	775.69	+10.72 ▲	+1.40%
<u>Hong Kong Dollar</u>	-0.01%	01/04-09:20	7.7511	0.1290	8682.01	+183.91 ▲	+2.16%
<u>Indian Rupee</u>	+0.83%	01/04-07:45	46.2300	0.0216	51782.22	+668.88 ▲	+1.31%
<u>Japanese Yen</u>	+0.50%	01/04-09:29	92.5600	0.0108	103731.99	+1730.08 ▲	+1.70%
<u>Mexican Pesos</u>	+1.06%	01/04-09:28	12.9557	0.0772	14519.45	+160.79 ▲	+1.12%
<u>Russian Ruble</u>	+0.00%	01/04-01:40	30.3135	0.0330	33969.31	+730.56 ▲	+2.20%
<u>S.African Rand</u>	+0.70%	01/04-09:28	7.3370	0.1363	8222.58	+120.54 ▲	+1.49%
<u>Swiss Franc</u>	+0.52%	01/04-09:29	1.0294	0.9714	1153.65	+18.99 ▲	+1.67%

Foreign investors are not likely to persist in the financing forever. Indeed we have recently seen evidence in India, China, Russia, even Sri Lanka that there is a move to diversify dollar risk to gold and other commodities. Copper has shown real muscle. Copper is one of the best indicators that robust economic terms are developing.

Canada's unemployment rate, according to the Globe this AM, is a mere 8.5% substantially below that of the US. It is clear that the Canadian economy – so heavily commodity-based, and without the plethora of banking problems that have plagued the US, has escaped the worst of the 27 month period between July 2007 and October 2009. The Royal Bank suggested that Canadian consumer sentiment increased 8 points in December. Sixty percent of Canadians believe that the economy will improve in 2010. 79,000 additional Canadians were employed in November. Canadians are spending but they are not using debt according to the Royal bank. Instead that good old Canadian prudence is on view which is as much a part of the Canadian character as ice hockey. Americans could take a lesson in this respect.

Around the world we see resource nationalism once again firmly in place. To cite just two examples, Pakistan and Chile are today making their marks on the commodity markets. In Pakistan the gold, coal and copper resources are being husbanded according to the AP. In Chile we have a strike at one of the world's largest copper mines Chukicamata. We expect this strike to be settled quickly. We also expect to see China move expeditiously into Pakistan's newfound resource nationalist fervor and "help" that country "develop" its natural resource legacy. There are geopolitical issues here as well.

So here we have, on this first trading day of the New Year, reasons to celebrate that the worst is over. I sincerely hope that this is the case. If so we shall see the Federal Reserve as

well as other central banks (particularly the Bank of Canada) raising rates and attempting to stem further the threat of inflationary expectations.

This AM the labour markets in Canada and perhaps the US³, the commodity markets, currency markets and apparently the equity markets appear to be sending a message to the world⁴. The hopeful message is that 2010 is “game on.”

But I worry. Because we are driven by hope now, rather than fear, we may collectively be overly optimistic in our leanings. The most important book I ever read, one that I asked all my students to read, was Edwin Lefevre’s *Reminiscences of a Stock Operator*. This fictionalized account of Jesse Livermore’s trading activity speaks volumes about what to expect and how to act. Here’s a quote that may apply to what we are experiencing today,

“It was never my thinking that made the big money for me. It was always my sitting. Got that? My sitting tight! It is no trick at all to be right on the market. You always find lots of early bulls in bull markets and early bears in bear markets. I’ve known many men who were exactly right at exactly the right time, and began buying or selling stocks when prices were at the very level which should show the greatest profit. And their experience inevitably matched mine – that is, they made no real money out of it. Men who can be both right and sit tight are uncommon.”

The message? Sit tight and focus on discovery opportunities. Wipe the eternal hope and eventual frantic buying behaviour completely out of your mind at this time lest you become one of Lefevre’s men who made “no real money.”

I am not a big fan of MIT Professor, Nobel Laureate and New York Times OP-Ed columnists Paul Krugman. But this AM he wrote a column (*That 1937 Feeling*) decrying the lack of government intervention and the possibility that this Federal Reserve might move to tighten too soon. I am not a fan of government intervention in any way but I do believe that Professor Krugman is probably correct in his assessment of the future actions of the Fed and other central bankers around the world. He asserts that such tightening is exactly the wrong path and that it would choke off any recovery which, in his opinion, is not yet real and self-sustaining. From that particular perspective we agree with Dr. Krugman.

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³ We will know in the U.S. by Friday’s market close.

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