

Today's Notes:

- 1. Congress: Asleep on Signature Issues**
- 2. The Dollar: Far from Over**

1. ASLEEP

According to the Financial Times today, one of Senator Obama's major concerns is providing universal health care for all Americans. The presidential candidate's plan will offer insurance for those 47 million Americans without current coverage. It will cost \$110 to \$120 billion per year to provide tax credits for low income Americans. It will be paid for by increased income taxes of \$50 to \$65 billion per year from high income Americans (defined generally as earning over \$250K). The New York Times reported last year that Economists Austan Goolsbee (University of Chicago), David Cutler (Harvard) and Stuart Altman (Brandeis) have assisted in planning. Dr. Cutler suggested that by computerizing a US health data base for all Americans (\$10 billion per year expenditure for 5 years) the health records of mom and pop will save the rest of the cost of this grandiose scheme. Says Dr. Cutler

“That (computerization) sets you on a path for a fundamental transformation of healthcare.”

This is political pandering once again. We see this signature health care issue discussed every four years by parties. It will probably bring votes in for the fine senator. But I know about large data bases and computer solutions to troubling problems. I toiled in the computer industry for many years. Mega-systems never work as intended – and neither will this one.

In an FT article, this AM, Professor Cutler suggested three objectives of Mr. Obama's plan:

- 1) “Cover everyone.”
- 2) “Bend the curve on health cost inflation.”
- 3) “Have a public health care system that works.”

Every US election season universal health insurance is addressed and kicked to death as a political football. Lobbyists on Capital Hill will have a field day with this. It should be pointed out that access in the US health care problem is very serious. There are numerous people without health care insurance (estimate of 45 to 47 million). There may be “insurance redlining” of those less healthy as the Dems claim. But do we need a mandate to make such a monstrosity large and tax intensive insurance system work? Stay tuned.

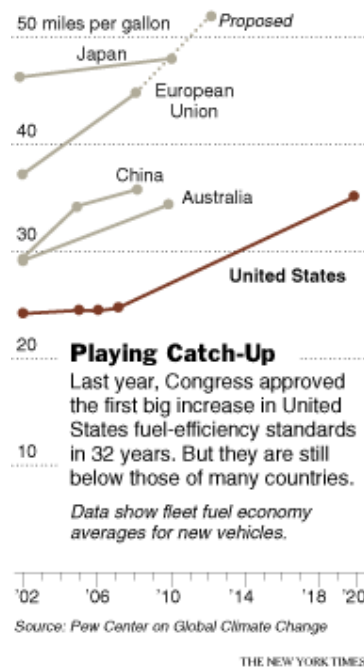
Once again Congress and the Administration are asleep at the switch on this “signature issue.”

But mandated health care is not the primary issue of the election campaign. Here again the candidates are asleep at the switch.

The simple issue of primal concern to senators McCain and Obama must be, *access to cheap(er) energy and the reshaping of the US energy infrastructure*. Notice I choose the words “*access*” and “*cheaper*” with specificity. Access implies economic, secure ability to obtain. Cheap energy improves the quality of life of a country while energy inflation must lower per capita lifestyle. Yesterday I read an interesting article in the New York Times which castigated both Democrats and Republicans in Congress for being “*Asleep at the Spigot.*”

<http://www.nytimes.com/2008/07/06/business/06oil.html?pagewanted=4&ei=5087&em&en=3ef06b311841c4e8&ex=1215576000&adxnnl=1&adxnnlx=1215428856-JiA5g6lZjB0gAhk/rHatdg>

Once again the blame game drones on. The article listed above is worth a read. Most of the blame in this article falls on our automakers in Detroit and select legislators (both democrat and republican) in states hosting auto factories. One expert claims that CAFÉ standards, which could have been adopted 20 years ago, would have saved 3 million barrels per day. But Speaker Newt Gingrich and other legislators broke with President Bush on the issue. Senators Levin (Democrat) and Helms (Republican, recently deceased) violently opposed any fuel efficiency standards.



The outcome for American industry of course is grim. Not only do we now import 2/3rds of our required oil, 70% of which is used in transportation, but the domestic automakers are facing grave economic status. There is some question whether Ford and GM can make the technology and product transition needed in the short run to survive. All this is occurring at a time when the US consumer is reeling, a perfect economic storm, of sorts.

Other countries around the world have established much higher fuel efficiency standards as shown above. Gasoline in Holland sells for \$10.67 per gallon. But it is not Detroit, Big Oil or Institutional investors (speculators) that have failed us. It is very clearly the past and CURRENT cast of those elected to Washington. As former CEO at Exxon, Lee Raymond correctly notes *“It was a no-action policy ... by the time there is panic, people need to realize this: There is no quick-fix on this. By the time you panic, it is way too late.”*

So this attempt to exorcise the demons of Rep. Markey and Senator Domenici must fall on deaf ears. Let us hope and pray that our elected leaders can agree to work in harmony and bi-partisanship to solve the energy and health problems we face. Access to cheap energy is critical for a sustainable health care system as well. It will take a decade or more to **begin** to rectify the situation. Once we recognize this we will awaken to the possibilities. We will also awaken to the awesome energy threat and the potential for an Apollo-like Moon program to secure economic, energy access.

In the meantime a Georgia court halted the construction of Longleaf, a new 1200 MW coal-fired power plant planned for the Chattahoochee River. Apparently greenhouse gas concerns must be considered. The only short term solution here is nuclear energy supplemented by alternative energy schemes such as solar, wind, geothermal and tidal. In the meantime, energy costs will continue to escalate and that may not be all bad. It will change behavior as all such price increases and decreases tend to do. It seems that is the only way to awaken American ire to the non-action of our leaders. Projects such as Valcent Products (algae production for bio-diesel), MegaWest Energy, Enhanced Oil Resources, Oil Sands Quest, Dejour Enterprises, Primary Petroleum and Derek Oil and Gas may offer some interim relief through discovery and production of oil, gas and bio-diesel.

2. DOLLAR

The Dollar is strengthening as we watch the world markets this AM. Oil is falling (\$141.75) but I suspect that it is based on geopolitical issues in Iran and hope on the world's oil exchanges. In any event the EU did raise rates last week but one must wonder why. Mr. Trichet quickly distanced himself from further rate increases negating most of the inflation fighting impact of the rate increase. There is no one in Europe anxious to drive the US dollar's relative value lower. And so it seems as if the European inflation obsession was more talk than substance. As I write the \$ is strengthening. Nevertheless we are still of the opinion that more interest rate cuts are likely as the credit derivative noose tightens its grip on the credit and capital markets worldwide.

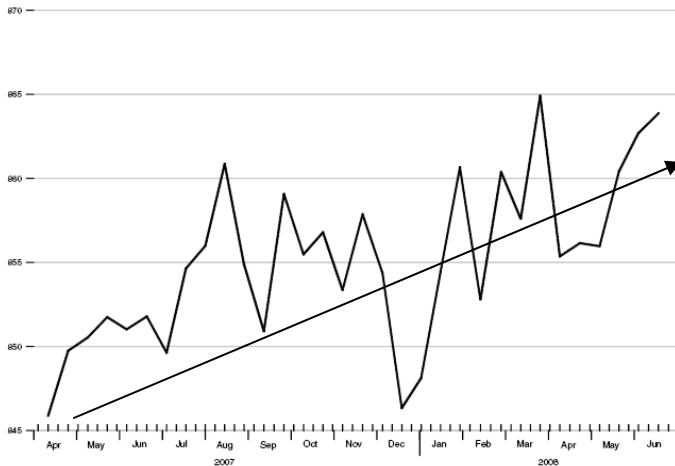
In spite of many forecasts for oil to trade at \$150 per barrel in the near term we are hopeful that oil could trade back to the \$130 level or lower. World economies need that as shown last week when coal prices faltered. There is new sense of reality in the markets that food and energy inflation notwithstanding, as oil approaches \$150 or higher, global growth will slow significantly. In other words there are strange ethers in the capital and credit markets that are sensing a “tipping point” with respect to economic growth. Dr. Bernanke fears this outcome, more than the inflation stalking the world's consumers today. It is a very difficult and now strange world in which we exist. It is changing as we speak. While the dollar needs to strengthen for the benefit of all concerned, we see more \$ weakness in the future as the Fed in the US moves to ease rates and increase the money supply.



I include a graph from Don Coxe's (BMO) recent Basic Points publication. His work is a must read. In spite of today's pullback in gold and metals we think it wise to continue to own and acquire on weakness legacy gold mining companies and to acquire incubator companies in this sector. Mr. Coxe notes "The Bernanke Fed has had to throw caution to the winds because too many major US banks threw caution to the winds years ago."

This global dollar battle is far from over dear D.I.

U. S. Federal Reserve
Adjusted Monetary Base
 Averages of Daily Figures, Seasonally Adjusted
 April 2007 to June 2008
 Billions of dollars



Source: June 26, 2008, Weekly U.S. Financial Data, Research Division, Federal Reserve Bank of St. Louis

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