

Today's Notes:

1. What We Think

**1. WHAT WE THINK**

Americans have, en mass, almost forgotten about the plight of polar bears in the arctic and the impact of anthropogenic global warming. Instead they see continuous images of oil-coated pelicans on Louisiana's marshes. With these images in mind, carbon dioxide's potential for environmental poisoning has been pushed into the background.

This is what happens as the quality of mom and pop's lifestyle comes into question. Economics are beginning to pinch as unemployment (based on last week's terrible statistics) languishes at very high rates – 9.8% according to the BLS. Once the census workers, who made up most of the new hires, are retired the US employment situation will worsen. Without reasonably full employment and its credit availability companion Americans will be forced to restrain themselves and their spending habits. This was confirmed last week with the US consumer spending numbers. In May consumer spending fell 1.2%. To top it off the Administration in Washington wants / needs another \$50 billion rescue package for the States – not going to happen.

Mom and pop, out there in Kankakee, are worried. To them it seems that, both Republicans and Democrats in Washington are not getting the recovery in motion. You can only push off the inevitable for a time. A \$19 trillion debt load (forecast for 2015) and a much lower quality of life could be the legacies that we leave our children and grand children. Some legacies! Soon we have to stop borrowing and spending regardless of what economist Paul Krugman says in the New York Times. There will be pain, but Americans are not afraid of pain. They are instead afraid of the uncertainty facing the nation and concerned about the legacy we are bequeathing to our children.

Still, the U.S. equity market wants to move higher even in the face of the undeniable necessity for long term deleveraging of the global economy. Wall Street is in a traditional denial-mode of investing.

Pew reports this AM that economic woes trump the deficit. In American minds:

*“A plurality of Americans (41%) cite the job situation as the economic issue that worries them most; 23% cite the federal budget deficit; 16% say rising prices and 13% say problems in the financial and housing markets.*

*The public's economic concerns are little changed from March, when 45% said that the job situation was their top economic worry and 23% the budget deficit.*

<b>More Worry About Jobs than Deficit</b>						
<i>Economic issue that worries you most...</i>	<u>Jobs</u>	<u>Deficit</u>	<u>Prices</u>	<u>Markets</u>	<u>Other None/DK</u>	<u>N</u>
	%	%	%	%	%	
Total	41	23	16	13	6=100	1002
Republican	35	34	15	14	2=100	284
Democrat	47	13	18	15	8=100	300
Independent	40	28	13	13	6=100	328
<i>Family income</i>						
\$75,000 or more	39	30	10	16	6=100	261
\$30,000-74,999	32	30	18	16	5=100	306
Less than \$30,000	51	13	22	9	6=100	257
Pew Research Center/National Journal June 3-6. Figures may not add to 100% because of rounding.						

***Republicans continue to be evenly divided as to whether jobs (35%) or the federal budget deficit (34%) is most worrisome. But among Democrats and independents, substantially more cite the jobs situation than the budget deficit.”***

It would appear that job creation, private sector not temporary government jobs, are critical for a recovery. Global deleveraging is likely to overhang the U.S. job market for far longer than most economic and market pundits hope. Europe appears to have gotten “religion.” Austerity measures are springing up almost everywhere on the continent – even Spain and Portugal are cutting entitlements and spending. This has not yet happened in the U.S. – probably because we are so used to having the reserve fiat currency that everyone else needs. Meanwhile gold and silver are resilient.

While U.S. equities may rally these will be selling and not buying opportunities. You must focus very diligently on your discovery companies and their sustainability. It is clear that the energy sector will be a very good place to seek discovery. Lithium, uranium, vanadium, beryllium, tungsten, copper and molybdenum are likely to move higher if, as I suspect, the U.S. finally, belatedly enters the nuclear reconstruction mode seriously.

As we rebuild the electric grid and develop the necessary battery technology specific hi tech companies will also be of interest. Domestic natural gas is going to replace coal over time because it is cleaner. Even Cheniere Energy is building an LNG terminal to export the cleaner fuel. But it is NGs domestic origin that matters. It should also be considered as a feedstock for diesel production.

I am still of a mind that a barbell portfolio (gold on one end and T-bills the other) supplemented by a mature discovery portfolio of energy and industrial metal shares is a good way to go. I particularly like the gold and silver discovery companies. I am spending more time on three companies, Sandspring Resources (Guyana), Revett Minerals (silver and copper in Montana) and Antioquia Gold (Colombia). We will be writing more on these companies as we move down the yellow brick road.

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