

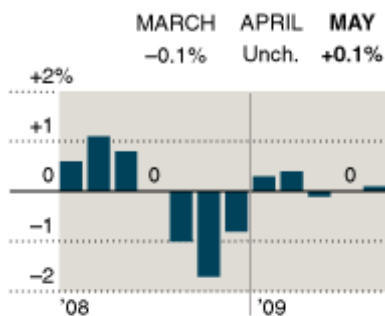
Today's Notes:

1. START NOW

Alan Blinder seems to have the correct impression. The Princeton Prof and former Fed Vice Chairman writes in the New York Times that the prevailing opinion that the Fed will suffer the country from inflation or yes even hyper inflation says Professor Blinder is way off base. He says we are now in a deflation is "both aberrant and worrisome." The record of the CPI (below) (May 2009) seems to support his position.

Consumer Prices

Percent change, month to month, seasonally adjusted.



U.S. and major metropolitan areas

Not seasonally adjusted	Percentage change from previous:	
	MONTH	YEAR
United States	+0.3%	-1.3%
New York	+0.2	-0.1
Los Angeles	+0.4	-2.4
Chicago	+0.9	-1.5
Boston*	-0.1	-1.5
Dallas*	-0.4	-1.5
Detroit*(April)	+0.2	-1.4
Houston*(April)	+0.9	+0.5
Phila.*(April)	+0.6	-0.9
San Fran.*(April)	+0.8	+0.8
Washington*	+0.5	-0.2

*Two month change through May, except as noted. Calculated bimonthly.

Source: Bureau of Labor Statistics

There is little sign of inflation through May. Largest annual decline of -1.3% since 1950.

“Economists pointed to Wednesday’s numbers as a sign that there was still widespread downward pressure on prices, even if federal debts were growing. Wage growth is slowing, unemployment is rising, consumer demand remains low and many industries are still running at partial capacity.

“Slack is headed to near unprecedented territory here, ... If wages are falling, do you really expect people to believe inflation’s going to go through the roof next year?”

Haseeb Ahmed Economist at J P Morgan Chase.

Slight Rise in Consumer Prices in May,

New York Times, June 17, 2009

This deflationary sentiment conflicts with the advice coming from solon’s on the other side of the issue, such as Arthur Laffer. He suggested (see MN Wed June 17, 2009) that the Federal Reserve must tighten now to begin the task of removing its excesses. Inflation is insidious because it destroys a currency. Once inflationary expectations are in place it is most difficult to counter them. Maybe so, but the alternative that holds Japan in a vice grip

today is anemic economic progress and deflation. No matter the consensus of the Great Depression in the US, without the employment muscle generated by World War II, the US might have lingered in the darkness of economic obscurity for years – just as Japan has for the past two decades. There is a growing divide on this policy issue in our country now.

This is the result of the decisions of Federal Reserve policy makers. Historically the Fed has been behind the curve. The housing bubble is the most recent example of “too little too late” from the Fed. You see it depends upon who is running the Fed’s show. Last week, while in Virginia, I was queried on how we got into such a mess. The most likely answer is that it was post war phenomenon seeded by the tremendous victory of democracy over fascism. It began in earnest with President Johnson’s vision of Great Society spending and accelerated in 1978 with President Carter’s CRA. It was not a child of this decade alone but an unruly adolescent by the turn of the millennium. It transmogrified quickly this decade into a demanding, debt-addicted adult. This last half century of reckless spending by both Republican and Democrat Administrations fostered the notion that Americans “**deserved**” a home, a car, two flat screen TVs and a college education. We should have realized that Americans needed to earn those quality-of-lifestyle earmarks.

About the time Kate and I were married (1970) the Nixon White House, under pressure from French gold-for-dollar redemptions, abandoned the gold backed dollar. Since then the reserve status of the US currency has permitted dollar depreciation and the issuance of US debt to foreigners with the export of inflation. We think that trend has ended. During the past decade the US was still the most powerful nation. We developed a sense of entitlement.

So now we must pay the price for the 50 year upward QOL trajectory that finally fell from its heights July 13th 2008 when China sounded the Fannie and Freddie alarm and Secretary Paulson rang the bell. The ensuing global asset and capacity readjustment will require years. It will not revert to the OECD lifestyle levels of the recent decade. Since 1913 the Federal Reserve Bank has been tasked as the guardian against inflation and the provider of full employment policies and economic growth. This role ended in 2008. The independent role of the Federal Reserve may be in jeopardy with new regulatory standards emanating from Washington.

At some point during Chairman Greenspan’s Fed tenure these events quietly reached their tipping point. Perhaps we were lulled into passive compliance in our consumption and investment behavior with the apparent success of the Fed in deflating the Dot Com bubble of the 1990s. Even though housing was obviously a troubling asset bubble everyone believed in the Fed’s ability to succeed one more time for mom and pop. **It just did not happen.**

The ensuing de-leveraging and US dollar strength, which we are likely half way through, began to set the record straight. Unfortunately the “Too Big to Fail” mentality of leaders in Washington and Wall Street has slowed the natural readjustment process and more importantly placed a large hole in the principal of **moral hazard**. Apparently in today’s world, the larger the risk you can assume the more likely it is that the government will bail you out. Thus a perversion has been perpetrated by our leaders. By taking more risk you have actually taken less at the expense of the taxpayer. We must struggle on for some time.

The probability is that we shall experience an economic recovery; it will be weak, stimulated by Washington's fiscal programs. GDP growth will turn positive in 4Q '09 or 1Q '10. Comps are easier these days and no system declines forever. Inflation cannot rear its head for a time because there are too many headwinds. Japan's debt to GDP ratio is now 182%. China's growth is beginning to lag. Unemployment in China among college students is troubling. 3 million of last year's class cannot find jobs. Another 6 million will seek a job this year. Europe is just now heading into its economic morass. A quick look at the table below shows very little sustainable growth potential anywhere in the world. NYU's Professor Roubini suggests that the "green shoots" of March and April may now be turning into "yellow weeds."

Dr. Blinder's deflationary admonitions hold true at this time. **The tendency for deflation is clearly the present danger.** Chairman Bernanke realizes this fact very well. Quantitative easing, zero percent overnight target interest rates, plausibly higher energy prices, expectation for increased US taxation and significant US budget deficits through 2019 are headwinds for the US economy. Residential and commercial real estate adjustments are only partially complete. Credit is still very tight. Mom and pop are now saving. They have realized their plight. Sorry, talking heads, we have not yet turned the corner.

Of course the economic spring will arrive. There is no doubt that we have averted the worst of the financial crisis. Bank nationalization is now off the table. We think the next year or two of painstakingly slow growth will be the time to acquire discovery companies with pipelines of hard assets and the potential of "game changing discoveries." Eventually inflation will rear its head. You must build protection from the eventual decline of the US \$. Hard assets may yet become under priced in this timeframe. Nevertheless it is the time to rebuild your wealth and develop an inflation hedge. Discovery Investing in the commodity and health care sector can help you.

Figure 2 Global Real Estate Health Monitor

	U.S.	UK	Germany	France	Japan	China	Australia	General trend
Official interest rate	0.13%	0.50%	1.00%	1.00%	0.10%	5.31%	3.00%	Down, stabilizing
GDP QOQ	-1.5%	-1.9%	-3.8%	-1.3%	-4.0%	+6.1%*	+0.4%	Recessionary trend
CPI YOY	-0.7%	+2.3%	+0.6%	+0.1%	-0.5%	-0.3%	+2.5%	Slowing
Consumer sentiment MOM	+34.6%	+3.9%	0.0%	+2.4%	NA	+0.1%	-4.3%	Generally stronger
Employment YOY	-3.6%	-1.3%	-0.4%	-0.7%	-1.3%	+1.0%	+0.1%	Generally falling
Retail trade MOM	-0.4%	+0.8%	+0.9%	-0.8%	+0.6%	+0.6%	+0.3%	Generally stronger
Housing starts YOY	-54.2%	-44.2%	NA	+3.1%	-32.6%	+1.4%	-19.5%	Very steep falls
OECD leading indicator MOM%	-0.6%	+0.3%	-0.4%	+1.2%	-1.1%	+0.9%	-0.6%	Mixed
Manufacturing PMI, index level	42.8	45.4	39.6	43.4	46.6	51.2	37.5	Increasing
Stock market, MOM to May 29	+5.3%	+4.1%	+3.6%	+3.7%	+7.9%	+6.3%	+1.0%	Continued gains
REIT market, MOM to May 29	+1.7%	-4.7%	+40.5%	+5.4%	+6.7%	NA	+3.6%	Generally up
General trend	Recession	Recession	Recession	Recession	Recession	Slowing growth	Skirting recession	Signs of stabilization

Data represents most recent period available.
 QOQ = Quarter-over-quarter, YOY = Year-over-year, MOM = Month-over-month
 * Chinese GDP equals YOY

Source: Global Insight, Global Property Research; FRB; BOE; ECB; BOJ; PBC; RBA; Yahoo Finance, Jones Lang LaSalle

The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words “plan,” confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47. He owns shares and in Goldcorp, Senesco Technologies, DataMeg, Horseshoe Gold, Derek Oil and Gas, Terraco Gold, Neuralstem, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.20 for 2 years, for services as an advisor. In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.