

Today's Notes:

1. Canada
2. Lessons form the North

1. CANADA

*There was a time in this fair land when the railroad did not run
When the wild majestic mountains stood alone against the sun
Long before the white man and long before the wheel
When the green dark forest was too silent to be real
But time has no beginnings and history has no bounds
As to this verdant country they came from all around
They sailed upon her waterways and they walked the forests tall
And they built the mines the mills and the factories for the good of us all*

As a youngster growing up in Southwestern Ontario we always celebrated Queen Victoria's birthday on the 24th of May, firecrackers first, then, later, Labatt's. In rural Ontario in the 1950s, it was not only the Canadian ensign that flew on that day but also the Union Jack, the flag of Great Britain. As recently as 1964 many Canadians felt a strong allegiance to the Great Britain and to the British Commonwealth. A common refrain of my wonderful grandfather and of many 19th and 20th century Canadians was,

"The sun never sets on the British Empire."

The Queen of England is still titular head of the government through the Governor General in Ottawa, though Britain's Queen Elizabeth II has no practical impact on Canadian government. Nevertheless if you view the provincial flags (10 provinces, 3 territories) there are plenty with the British ensigns and Lions emblazoned. Can you name them?

After the death of Queen Victoria in 1901, an Act was passed by the Parliament of Canada establishing a legal holiday on May 24 in each year (or May 25 if May 24 fell on a Sunday) under the name Victoria Day. This day is a holiday in Canada to celebrate Victoria's reign of 64 years from 1837 to 1901 and the progress of the Victorian Era - globally. In Canada West (Ontario today) Victoria's birthday was celebrated as early as 1845. The Queen's birthday was May 24th, 1819 - 190 years ago. One wonders how such a distant tie could have become institutionalized in the Canadian mentality. It has more to do with Canadian weather and the planting season in the Great White North.

As school children we used to repeat the rhyme,

*"The twenty-fourth of May
Is the Queen's birthday.
If we don't get a holiday,
We'll all run away."*

On the Six Nations Reserve in Ontario, Victoria Day is called Independence Day or Bread and Cheese Day. This was started in 1837 by Queen Victoria. All the residents line up outside their community center to get their bread and cheese from the government. Then there is a big party with races and ball games.

It is also called Victoria Day Weekend or “May 2-4” in some places in Ontario. If you are Canadian, as I am, you will understand the significance of this name of the first civic holiday of the warm (?) season in Canada. I must point out that Victoria Day is not celebrated in Quebec as such. From 1980 till 2002 the 24th of May holiday was called **Fete de Dollard des Ormeaux**. History tells us that Des Ormeaux saved Montreal from an Iroquois attack in 1660. In 2002 Quebec renamed the holiday "**la Journée des Patriotes.**"

Canada's identity is tied to its history; That of its First Nations peoples, Quebecois and its special ties to Britain. Canada prevailed in the War of 1812. Today she is building a vibrant resource-based economy. Gordon Lightfoot had it right, “history has no bounds.” I can hear Lightfoot's refrain now.

*Oh the song of the future has been sung
All the battles have been won
Oer the mountain tops we stand
All the world at our command
We have opened up the soil
With our teardrops and our toil*

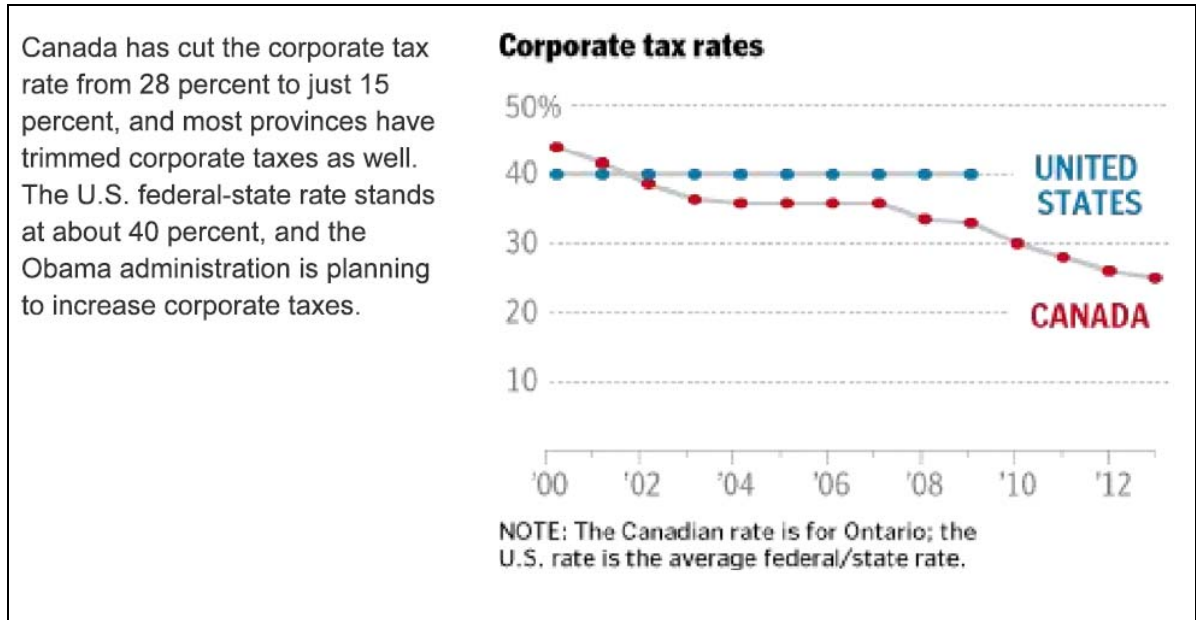
We salute all our Canadian readers - and we have many – and may we suggest that cottage country is waiting? The 2-4's are piled up and cold. The barbecue is waiting in Halifax, Collingwood, Melfort and Victoria. The Trilliums are blooming in the woods of Ontario. Stocks and bonds can wait. The spring is here. It is time to plant and celebrate and dance round the Maypole in Victoria. Have fun, regale in your glorious history and look to Canada's wonderful future, your history has no bounds. See MN 2 below.

2. LESSONS FROM THE NORTH

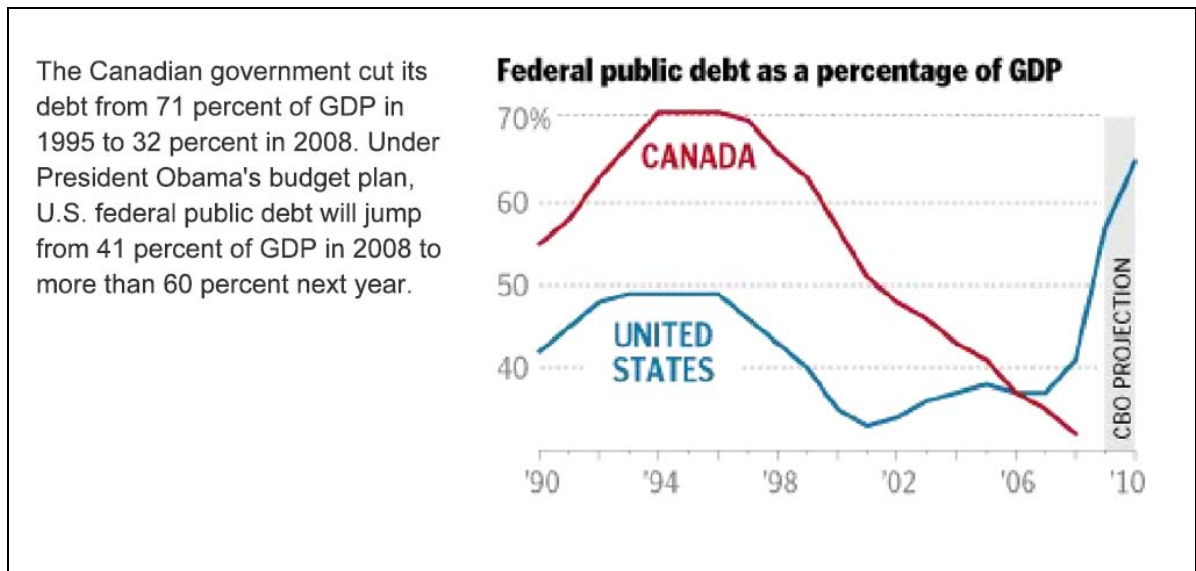
Slowly but surely Canada is emerging. Most observers do not count Canada as an Emerging Economy. Many believe emerging economies are those teeming with impoverished citizens, overpopulated with poor nutrition and health care. India and Brazil immediately come to mind. But Canada is emerging in ways much more important. Canada is one of the last great resource frontiers in a less stable world, resource hungry world. Geography and size make it an incredibly important player in today's globe. Canada's soldiers have taken the brunt of the fighting and death's in Afghanistan. Russia this past week began bullying its northern neighbours (Norway, Denmark, Canada and the US) on Arctic Sovereignty. The Russians actually threatened hostility should their energy claims in the Arctic be challenged. Canada will necessarily be a critical player in this upcoming dispute.

But what most people in North America do not realize is that Canada is rapidly moving to the right (relative to the US) on a host of issues. Examine the following charts from yesterday's Washington Post.

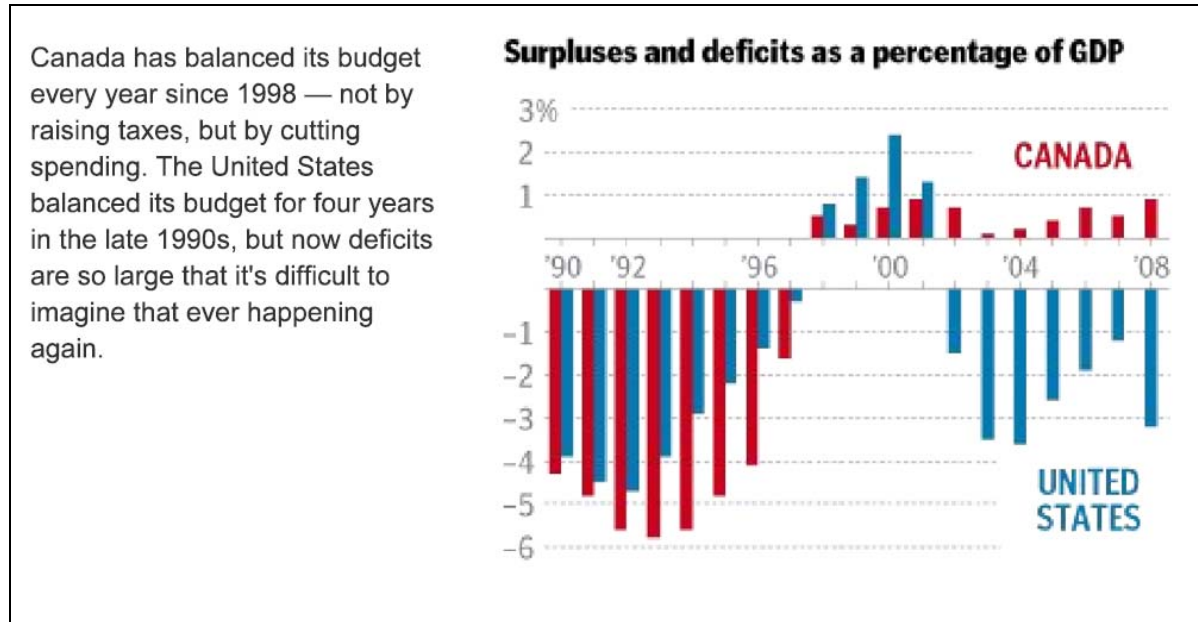
According the Post most provinces are lowering corporate tax rates. The Obama Administration is spending like a drunken sailor, slandering corporations and their executives and will penalize companies through much higher tax rates very soon. This bodes well for investment in Canadian industry in the next decade.



Canadian debt, as a percentage of GDP, is headed in the opposite direction to that of its southern neighbour. We need say little about what is likely to happen in Washington. Debt to GDP will approach 100% in the US within the next decade under the aggressive spending plans in Washington. Who will finance this debt at reasonable interest rates once the recession ends?



Canada's resource economy will benefit further as recovery and growth ensue in the 2011 – 2012 timeframe. Canada has reigned in its spending. If the US decides not to purchase Canada's energy largesse, the rest of the world will. Meanwhile, in the US, the energy and extractive industries will have been completely dismantled for the fantasy of 4 million Green jobs and an onerous cap and trade penalty on utilities and industry in general. Deficits of the size that **may plague Washington** tend to destabilize an economy.



Perhaps the most telling difference in the future path of the two countries has to do with social spending, retirement and health programs. Here is what Professor Walter Williams had to say about the unfunded liability and hence sustainability of Social Security, Medicare and other entitlements in the US in an April 11th interview (Washington Post.)

George Mason University Economics Professor
Walter E. Williams

"What's called the public debt stands at \$11 trillion and growing. That pales in comparison to the federal government's unfunded liability -- obligations that are not covered by an asset of equal or greater value.

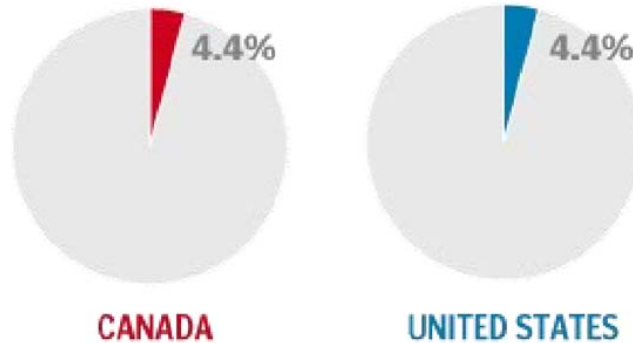
Mike Whalen, former policy chairman of the Dallas-based National Center for Policy Analysis, commenting on last year's Social Security Trustees annual report on the state of the Social Security and Medicare programs, said,

'The report on the state of entitlement programs is rather grim -- the combined unfunded liabilities of both programs are \$101 trillion.' What that means is that in order for government to make good on its promises, Congress would have to put aside tens of trillions of dollars in the bank today. Keep in mind that our GDP is only \$14 trillion. In the absence of massive tax increases or cuts in benefits, in order to meet its promises Congress must cease spending on one in four programs by 2020, such as education and highway construction, and one in two by 2030, and by 2050 or so all federal revenue will be spent supporting Social Security, Medicare and prescription drug benefits. Such a scenario is unsustainable.

I'd be more optimistic if my fellow Americans were simply suffering from congressional deception as opposed to their not caring about the economic calamity that awaits tomorrow's Americans." --

While Canada and the United States spend the same percentage of their GDP on retirement benefits, the U.S. program has a large unfunded liability that policymakers have done little to fix. Canada began putting aside money in the 1990s to pre-fund future benefits, just as private pension plans do. The Canada Pension Plan is now fully solvent.

Social Security benefits as a percentage of GDP (2008)



NOTE: Canada has two government-run retirement systems. The figure above includes both the Canada Pension Plan and the Old Age Security Program.

There are many lessons that we may learn from Canada. Granted Canada's population is 1/10th of that in the US. Nevertheless we think Canada and the Canadian dollar (relative to the US Dollar) is a smart investment alternative for all the reasons stated above.

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